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BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE

NOVEMBER 1983

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66—THINK SMALL
The final part of a four-part series on how to downsize housing shows ways to make sure even compact kitchens and baths have big impact. Prepared with William Devereaux, AIA, Berkus Group Architects.

72—POST MODERN WHAT?
The rage among a small but influential group of architects is causing a raging debate as well. To date, postmodernism's reaction to the sterility of modern design has focused on major commercial buildings. But now, production housing is coming under its influence.

(Cover: Saint Andrew's Golf Club. Photo: Robert A.M. Stern.)

80—GROUND BREAKERS
Builder David Easton doesn't just work from the ground up. He actually builds custom houses with the soil he excavates on a building site. While this technique, called rammed earth construction, may be ancient, Easton's high-priced houses are totally up to date and contemporary in design.

STARTS: A PLEASANT SURPRISE

Michael Sumichrast
NAHB Chief Economist

That housing starts were quite strong throughout the summer, in spite of a run-up in interest rates, surprised a lot of people. But don't be surprised if housing starts hold their own in the future, which is what I think will happen, provided interest rates decline at least moderately.

Of course, starts won't increase dramatically from month to month as they did during the first part of this year. But they will continue to be strong—in the range of 1.5 to 1.8 million units annually. Starts will slacken toward the end of this year as the impact of higher mortgage rates takes effect. Still we will end up with more than 1.6 million starts. And next year should see about the same number of starts—that is, if interest rates soften.

When builders are asked what they think their sales and starts will be next year, the inevitable response is: "That depends on interest rates." But most seem optimistic and are expecting some easing in interest rates.

What is behind the strong housing recovery?

- The main reason for the surge is, of course, the fact that mortgage interest rates dropped from a high of 18 percent to a short-lived low of 11.5 percent. That alone stirred traffic and gave buyers the confidence to enter the housing market. That wasn't the case during the previous three years.
- Lots of these prospects were first-time home buyers. That's confirmed by a survey of 800 builders we just completed. The survey indicated that almost half of the units being sold were being purchased by first-time buyers. This compares with 35 percent in the same period a year ago.
- State tax-exempt revenue bonds also helped a great deal. There was a flurry of activity in the period between June and August, very likely in expectation of the enactment of the sunset provision contained in the legislation authorizing these bonds. That provision would put an end to the bonds by the end of this year.

Last year, the total volume of single-family state tax-exempt revenue bonds was $5.1 billion. In addition, another $3 billion was issued by localities. This summer state bond issues were running at about $1.5 to $2 billion a month. Every $1 billion in money finances about 20,000 units, of which about half are new units. So, tax-exempt revenue bonds represent a big boost to housing.

HOUSING STARTS BY STATE WITH PERCENT CHANGES, 1983-1984
In thousands of units

	1983	1984	Percent change 1983-84
Alabama	16.1	14.3	−11.2
Alaska	12.5	10.6	−15.2
Arizona	61.5	59.6	−3.1
Arkansas	11.3	10.2	−9.7
California	135.7	133.9	−1.3
Colorado	47.7	50.2	5.2
Connecticut	16.6	20.1	21.1
Delaware	3.7	4.5	21.6
District of Columbia	0.2	0.8	300.0
Florida	162.0	168.0	3.7
Georgia	67.4	77.8	15.4
Hawaii	7.1	7.9	11.3
Idaho	3.7	3.4	−8.1
Illinois	25.7	20.8	−19.1
Indiana	15.8	15.9	0.6
Iowa	8.4	7.9	−6.0
Kansas	14.7	14.2	−3.4
Kentucky	13.3	14.3	7.5
Louisiana	35.9	38.1	6.1
Maine	5.4	7.0	29.6
Maryland	34.8	33.5	−3.7
Massachusetts	26.6	30.4	14.3
Michigan	18.5	16.3	−11.9
Minnesota	25.4	26.3	3.5
Mississippi	10.6	10.6	0.0
Missouri	20.1	18.1	−10.0
Montana	2.4	2.3	−4.2
Nebraska	6.4	6.1	−4.7
Nevada	14.4	14.2	−1.4
New Hampshire	8.4	9.0	7.1
New Jersey	37.7	44.2	17.2
New Mexico	10.5	11.8	12.4
New York	38.0	46.1	21.3
North Carolina	46.3	52.5	13.4
North Dakota	4.6	3.6	−21.7
Ohio	25.4	23.8	−6.3
Oklahoma	52.7	55.4	5.1
Oregon	9.4	10.4	10.6
Pennsylvania	39.0	47.4	21.5
Rhode Island	3.8	4.3	13.2
South Carolina	25.9	27.9	7.7
South Dakota	2.6	2.6	0.0
Tennessee	26.9	26.0	−3.3
Texas	351.9	352.6	0.2
Utah	11.0	9.8	−10.9
Vermont	6.4	7.7	20.3
Virginia	48.1	49.5	2.9
Washington	25.1	22.1	−12.0
West Virginia	3.3	3.9	18.2
Wisconsin	16.3	16.0	−1.8
Wyoming	3.8	5.0	31.6

Notes: Due to rounding, details may not add up to totals; 1983 and 1984 data are from August 1983 NAHB Forecast.
Sources: Bureau of the Census; NAHB Forecast Service

State tax-exempt revenue bonds carry lower mortgage rates, generally in the 10.5 to 10.9 percent range. This spring, when interest rates dropped, tax-exempt revenue bonds started to lose their attraction. At that point the FHA rate was down to 11.5 percent. But with the run-up in rates, bonds got popular again. In May there were 6 issues, then 11 in June, 12 in July and 22 in August.

- Just as the revenue bonds lost some of their popularity, so did the use of builder buydowns. However, when FHA rates jumped to 13.5 percent, builders were forced again to start using buydowns. In early September, according to our survey, 26 percent of the builders were using buydowns. That helped both sales and starts.
- Demand for housing has been surprisingly strong. The down time from 1980 to 1982 created a backlog of demand; prospects started coming out and looking at new and existing homes as soon as rates began to fall.

Builders responded by introducing lower-priced housing for primarily first-time buyers. In general, the strategy worked. While the recovery has been strong, it also has been uneven. Some states and regions have outperformed others. For example, the highest percentage of growth this year is expected in the West (67.5 percent), followed by the Northeast (55.3 percent), the South (54 percent) and the North Central region (24.1 percent).

The table shows our 1984 forecast for housing starts by states, assuming a total of 1.66 million starts. Texas will continue to lead the nation with more than 350,000 starts, followed by Florida and California. These three states will account for 40 percent of all new starts this year. In fact, Texas alone will take a 22-percent share. States with the largest percentage increases in starts will be Wyoming, Maine, Pennsylvania and New York.

NEWS

BUSINESS

FIRMS RUSH TO GO PUBLIC WHILE MARKET IS HOT

Ask Don Parr, vice president of finance for General Homes, why the fourth largest home building company in the United States ($350 million in revenues this year) went public in June, and he comes right to the point:

"It's been 10 years since housing stocks have been at these levels. It looked like a good opportunity to raise new capital." By issuing 3,500,000 shares of stock to the general public, General Homes, headquartered in Houston, raised more than $60 million which it is using to pay off debt and acquire land.

George Writer, chairman and chief executive officer of the Writer Corporation ($70 million in annual sales) also saw these as good times for raising additional capital. Although his Denver-based company has been publicly held since 1972, it went back to the public in March 1983, issuing 790,000 new shares of stock and raising $11 million to strengthen the company's capital position and provide for future growth.

General Homes and Writer Corporation are not alone. This has been the year for housing companies to go public or, if they were publicly held, go back to the capital markets with a reissue.

But going to the public, which opens the way to sources of equity, is not for every building company. Although it's a chance to get the extra capital needed to make the jump from a mom-and-pop business to a big-league enterprise, there are significant drawbacks.

George Writer, president of the Writer Corporation, took his company back to the capital markets with a reissue of stock and raised $11 million.

Going public means doing business in a fishbowl. "Naked in the rain" is the way Stan Ross, co-managing partner of Kenneth Leventhal & Co., a CPA firm specializing in real estate, put it. Everything the business does has to be disclosed, so everybody knows what the company is doing. The company also has to follow standardized accounting and reporting methods, be able to forecast earnings and issue quarterly reports.

"The requirements for public reporting during and after going public are considerable," Parr noted. "It was not a problem for us—our managing, accounting and reporting systems all were in place—but I could see where a smaller or newer company might have difficulties pulling together data and information."

Another consequence of going public is that regulatory bodies become involved in all aspects of the business. "You're subject to laws and regulations from those of the Securities and Exchange Commission (SEC) and the Federal Trade Commission (FTC) to the Foreign Corrupt Practices Act," Ross noted. And going public makes a company vulnerable to takeovers, litigation and proxy fights.

In addition, the housing industry has some peculiarities that do not lend themselves to a Wall Street mind-set. As one building company president put it, "When somebody calls you for a quarterly earnings report you can't say it rained so the contractor didn't show up."

Dealing with Wall Street is, reported Writer, not only difficult but dangerous. When his company went public in 1972 "we responded to the investment community. They didn't know about our business, but we listened to them. We shouldn't have."

This time around, Writer said, the company is listening to its own drummer. "We're now making decisions based on what will be best for the company three or four years down the road—not what will make the next quarter look good."

The size of a company is also a factor. Experts say sales of at least $50 to $70 million a year (700 to 1,000 home sales a year) is a minimum. But size has to be accompanied by desire.

"I have major clients who do five times the necessary amount of business, and they would never think of going public," Ross said. "On a personal level they don't want it. They're private, and they want to run their business that way."

Desire is a necessary commodity because going public takes considerable time, effort and money. General Home's Parr estimated that it took five to six man-years of work in a four to five-month period to assemble data and complete procedures necessary for taking the company public. The costs came to $1.3 million.

Despite the drawbacks, many building companies are toying with the idea of going public. A major impetus is the bullishness of Wall Street.

During the first half of 1983 many housing stocks were trading at such heady prices that at least one expert, Lewis Goodkin, Goodkin Research Corporation, declared that they were "so

HOME BUILDING COMPANIES THAT WENT PUBLIC IN 1983

Company	When went public	Number of shares	Offering price	October price
General Homes	June	3,500,000	19.0	14.25
Clayton Homes	June	1,750,000	16.0	13.25
U.S. Capital	July	1,555,000	13.5	11.00
Manufactured Homes	August	570,000	8.0	5.50
Hovnanian Enterprises	September	950,000	13.5	11.50

overvalued as to be unconscionable."

U.S. Home Corporation, for instance, which had a five-year price-earnings ratio of 18.5, was at 30.7 this summer. Moreover, housing stocks were outperforming the market. From their August 1972 low to their summer peak, the four housing stocks that make up investment firm Dean Witter Reynolds' housing index were up 170 percent while the Standard and Poor's 400 index was up 68 percent.

In addition, the new issue market in general was hot. In August alone 106 companies made their debut, raising a total of $1.36 billion. That was the fifth time in history that a monthly new issue volume topped a billion—the other times were March, May, June and July 1983.

All that activity was explained by Kenneth Leventhal, Kenneth Leventhal & Co., this way: "Any time the value of shares is bid up to a price-earnings ratio of 20, going public becomes the cheapest capital obtainable."

Many home building companies also saw things that way and took advantage of investor interest. At least five—more than in any year in the last 10 years—went public. In addition to General Homes, they were: Clayton Homes, Maynardville, Tenn., with an offering of 1,750,000 shares; U.S. Capital, Columbia, S.C., with an offering of 1,555,000 shares; Manufactured Homes, Winston-Salem, N.C., with 570,000 shares; and Hovnanian Enterprises, Red Bank, N.J., with 950,000 shares.

And by October several other companies had filed new issue or reissue registration statements with the SEC, including Olin American, Casselberry, Fla.; Arvida Corporation, Boca Raton, Fla.; Fairfield Communities, Little Rock, Ark.; Del E. Webb Development, Sun City, Ariz.; and Universal Development, Chicago.

Given the heady times and numerous success stories it is not surprising that at least a dozen other housing companies are seriously considering either going public or issuing additional stock. But the market may not be as hospitable for them.

"There's still a lot of interest out there," reported Barbara Alexander, housing analyst with the Wall Street firm of Smith Barney Harris Upham & Co. But Alexander, like most other experts, had a qualified view of the current marketplace.

The new issue market in general has entered a cooling-off period. New issues are not jumping into immediate premiums as they did earlier in the year.

"It's not as good right now," said Norman Fosback, editor of *New Issues*, a Fort Lauderdale, Fla., newsletter specializing in first-time stock sales to the public. "When there's a boom and a big demand for new issues, companies can ask higher prices. Right now they're asking lower prices. But you have to put that in perspective.

"Even though the situation is not as good as earlier this year," Fosback continued, "it's still better (with the exception of the first half of 1981) than at any time since 1972. So, by long-term standards, it's still a very, very good time for new issues."

For housing companies in particular, the times are slightly less promising. "The stock market has softened but it's still strong," Ross noted. "Real estate companies are still more in favor than they have been in a long time. If you define good as acceptability in the marketplace, a good secondary market and a positive attitude toward housing companies, then it's not as good as earlier this year—but it's still good."

Alan Wapnick, Dean Witter Reynold's housing analyst, is not as optimistic. "Like other highly cyclical industries, housing's sharp action in stock prices is compressed into a 6 to 12-month period that happens every 4 to 5 years. It is late in housing's cycle to go public now. Portfolio managers view housing stocks as last year's story. It's not the best time, but it will be even worse 6 months from now."

A similar situation exists for reissues, although not to as great an extent. According to Wapnick, "Even for an established company it's tougher to sell new stock now than it was six months ago, but it's easier than for a new entity."

Penelope Lemov, Business Editor

MARKETING

U.S. HOME DRIVES TO CORNER MARKET FOR MANUFACTURED HOMES

U.S. Home Corporation, the giant home builder based in Houston, has entered the manufactured housing business with a bang, and plans to become the largest manufactured housing firm in the U.S.

For $28 million it has acquired Brigadier Homes Corporation, the seventh largest mobile home manufacturer in the country, and Interstate Homes, the tenth largest modular home manufacturer in the U.S.

Brigadier, headquartered in Houston, has 13 manufactured housing plants throughout the Southeast and Southwest. In 1982 it delivered 8,064 single and multisectional homes priced from $7,500 to $40,000. Total sales were $104,850,500.

U.S. Home is buying up manufactured housing factories such as this 250,000-square-foot plant in Salt Lake City which can produce as many as 26 modular homes and 50 mobile homes a week.

Interstate, based in Salt Lake City, serves a seven-state area and boasts one of the largest, fully automated assembly operations for prebuilt homes, mobile homes, modular living units and motel units. In 1982 sales of its homes, priced from $33,000 for a

see U.S. HOME p. 34

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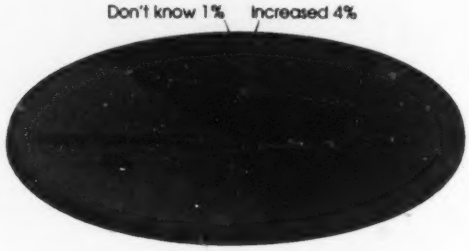
ACTION NAHB

IN SPITE OF RATES, BUILDERS STILL OPTIMISTIC

EFFECT OF MORTGAGE RATES ON HOME SALES

Percent of builders

NATIONALLY



REGIONALLY

	Northeast	South	North Central	West
Increased	3%	5%	3%	4%
Dropped somewhat	40	41	38	34
Dropped considerably	26	36	43	56
No effect	27	17	15	5
Don't know	2	1	1	1

Many home builders were hard hit by interest rate increases during the summer, but most now believe the market will improve through the remainder of this year and at least through the first quarter of next year.

This assessment is based on telephone surveys of 800 NAHB members, a poll of NAHB's executive committee and a mail survey of an additional 220 members. The surveys took place in September.

As expected, the builders reported that sales of new homes dropped sharply after interest rates rose last summer. They base their optimism about the near future on the belief that interest rates will drop slightly.

The survey indicated that on average builders expect to start 38 percent more homes this year than last, but they also expect starts during the second half of this year to decline by 25 percent from the starts level during the first half of the year.

"This report provides the facts and figures supporting our contention that a robust and sustained recovery is by no means certain as long as mortgage interest rates remain at their currently high levels," said NAHB President Harry Pryde. "From the evidence provided by this survey, there can be little doubt that housing is greatly improved from the depressed production levels of 1981 and 1982, but lower federal deficits in tandem with a more accommodative and less erratic monetary policy are needed to carry this recovery forward."

Comments volunteered by builders who participated in the survey highlighted their concern with interest rates. Many said that what is needed is "stability" in interest rates, so that both builders and consumers know what to expect.

Several respondents also noted that the lagging resale market is the real problem. That "causes stagnation in the new home market," one builder said.

Another builder in Abilene, Tex., said that he is doing well selling higher-priced housing, but feels very "insecure" about the future. An Indiana, Pa., builder put it more succinctly: "If rates go up again, people who survived the last time will not make it again."

Other survey findings:

- Only about one-fourth of home builders were buying down mortgage rates at the time of the survey. The percentage of home builders offering buydowns was highest in the West (34 percent).
- Builders rate the condominium market weaker than markets for single-family homes and townhouses. Builders expect the condominium market to stay about the same this year and for the first quarter of 1984, with some improvements in the South and East and with small declines in the Northeast and North Central regions.
- Market conditions for townhouses were said to be slightly weaker than the market for single-family houses, with only minor changes expected for the remainder of the year and the first three months of 1984.
- On average, builders are paying 1.5 points above prime for construction loans. Those builders whose construction loan interest rate is not tied to the prime rate were paying an average interest rate of just under 14 percent.
- Builders expect some decline in sales and settlements during the final quarter of this year, compared with the period of June to August 1983. ⌂

LOCALS AT WORK

- For the past five years, the Seattle Master Builders Association has used an unusual method to raise money for its Political Action Committee: a surplus building materials sale. The sale attracts consumers who are looking for doors, lumber, window frames and other materials that builders have left over from projects. The 1983 sale, held during September, was a sellout, with more customers than materials. The sale raised over $5,000 for the HBA's PAC.
- The Home Builders Association of Virginia (HBAV), in Richmond, urged all affiliated organizations to support National Housing Week with a state-wide blood drive called "Building Health in '83." HBAV President Randolph R. Rinehart said that the blood drive is a good way to "show nonmembers that home builders and associates are civic-minded and an excellent group to asso-

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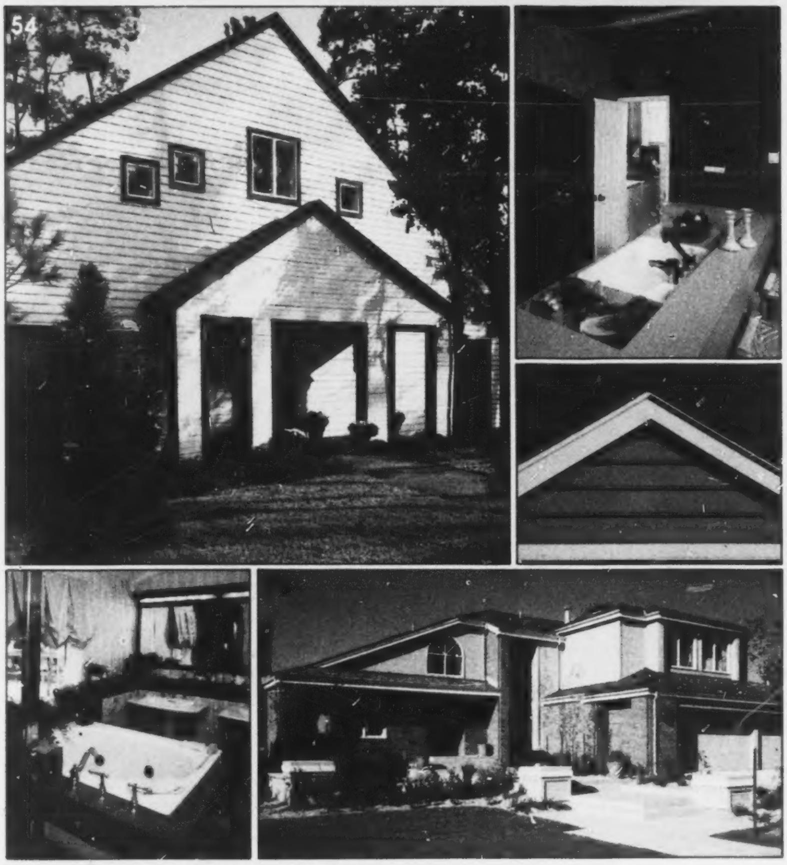

54—THE NEW AMERICAN HOME

It's an idea house, a house built to showcase innovative design, new building products and efficient construction techniques. It is not a far-fetched house of the future. In fact, it was always meant to be an appealing, affordable house suitable for today's most active group of new home buyers: young, moderate-income couples. A joint venture of BUILDER, *Good Housekeeping* and the National Council of the Housing Industry (NCHI), the house will be open for tours during the NAHB convention in Houston in January.

(Cover: The New American Home. Photo Copyright Robb Miller 1983.)

76—MOVING UP

High interest rates, high housing prices and a lousy resale market killed the move-up market. But now with the recovery moving along, the move-up market again is showing signs of life. Case studies of three higher-priced projects that are doing very well indeed.

NEWS

ECONOMY

FORECASTERS SEE FLAT BUT EVEN YEAR AHEAD

Next year will be reasonably good for housing, but high interest rates will prevent starts from rising much, if any, above 1983's estimated 1.68 million level.

That was the consensus of economists and housing analysts at NAHB's semiannual residential construction forecast conference held in late October.

While total housing starts next year are expected to be flat at about 1.7 million, NAHB estimates that single-family starts will rise 7 percent to 1.14 million units, although multifamily starts will decline 11 percent to 549,000.

Mortgage rates are expected to be relatively high but stable throughout next year, averaging 13.5 percent.

Despite continued high rates, bulging deposits at thrift institutions may pressure lenders into making more long-term, fixed-rate mortgages, according to Leonard Santow, a partner in the investment consulting firm Griggs & Santow, Inc., New York City.

This situation, the increasing attractiveness of below-market adjustable rate mortgages and the growth of financing alternatives such as builder bonds are some reasons for the expected modest rise in single-family starts.

The falloff in multifamily starts anticipated by NAHB is due to the softening condo market and overbuilding and rising vacancy rates in the apartment rental sector, particularly in the Southwest.

Regionally, the South and the West will continue to produce a large proportion of the nation's housing. Texas, California and Florida together will account for an estimated 37 percent of all starts in 1984.

Nevertheless, starts are expected to decline by 5.7 percent in the South and 3 percent in the West while rising 18 percent in both the Northeast and North Central regions.

The forecasters expect 1984 to be the peak of the current housing cycle because they all see trouble brewing in 1985. The cause: Mammoth federal deficits, which are expected to collide with rising private sector borrowing needs, will push up interest rates.

NAHB's 1984 HOUSING STARTS FORECAST

(annual rates, thousands of units)

	1983	1984	Percent change
U.S. Total	**1,683**	**1,692**	**+ 0.005**
Single-family	1,068	1,144	+ 7
Multifamily	615	549	−11
Northeast	**174**	**206**	**+18**
Single-family	123	145	+18
Multifamily	51	60	+19
North Central	**226**	**267**	**+18**
Single-family	158	185	+17
Multifamily	68	82	+21
South	**915**	**863**	**− 5.7**
Single-family	563	584	+ 4
Multifamily	351	279	−21
West	**370**	**357**	**− 3**
Single-family	224	230	+ 3
Multifamily	145	128	−12

Note: Figures have been rounded to nearest whole number.
Source: NAHB Forecasting Service, Bureau of the Census

"The deficit should not be a big problem in the next six to nine months because corporate borrowing won't be big," said Lawrence Chimerine, chairman and chief economist of Chase Econometrics, an economic forecasting firm based near Philadelphia.

"But interest rates could rise sharply—3 to 5 percentage points—in 1985 if deficits are not reduced significantly."

In answer to a question from the audience of builders and building materials manufacturers, Chimerine predicted that the chance of positive action on the deficit will be less if President Reagan is reelected.

"Reagan wants to cut the deficit by reducing nondefense spending, and Congress will want to do it by increasing taxes," he said. "That could lead to a stalemate, which would delay any action on the deficit."

Although a credit collision is not expected next year, Chimerine said rates will remain relatively high in part because "we're past the good inflation numbers. Inflation is back to 4 to 5 percent, and will rise to 5 to 6 percent next year," he said.

On the question of inflation—specifically how much the Federal Reserve Board will tolerate before tightening the monetary screws—Fed Vice Chairman Preston Martin told the group he thinks 5 percent is too high.

"I don't know if we can live with that," Martin said, but he added, "We have the feeling inflation won't go up much."

Most of the forecasters believe current Fed policy is relatively restrictive for this stage in a recovery, a major reason short-term rates are so high. But most felt the Fed would not tighten further next year.

Martin, of course, did not tip the Fed's hand, but he emphasized that the Fed will not base its actions solely on whether the money supply goes up or down.

"That's simplistic, won't work, and we're not going to do it," Martin declared. "We cannot disregard what's happening in the economy. That could be destructive to the recovery."

Nevertheless, Martin left the door open to greater reliance on M-1 (the amount of cash and money in transaction accounts) in determining monetary policy.

Since last fall the Fed has downplayed the importance of M-1 because it has gyrated so much in response to all the changes produced by deregulation of depository institutions. But according to Martin, "If M-1's behavior becomes more predictable, it will be used more by the Fed."—C.A.

FACTORY-BUILT

JAPAN POISED TO INVADE U.S. HOUSING INDUSTRY

Japanese housing manufacturers appear to be warming up to do to the American housing industry what Toyota and Sony already have done to the American automobile and electronics industries.

During the last few months, sources have reported that at least one and maybe three of Japan's largest housing producers are searching

see JAPAN p. 40

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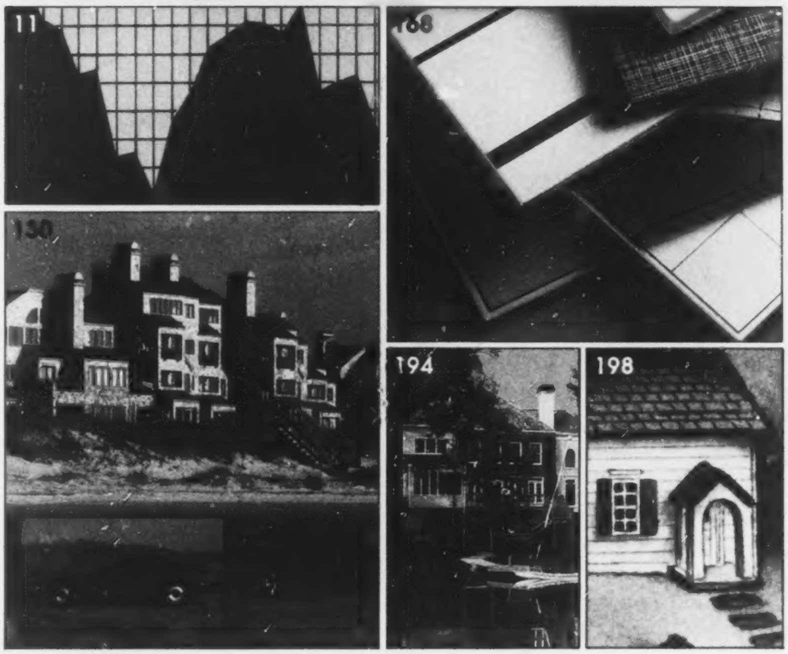


11—OUTLOOK

A new BUILDER exclusive. Four easy-to-read pages of economic news, including Michael Sumichrast's column, results of a Gallup-type survey of builders, charts on key housing-related statistics and a news roundup. Prepared with NAHB's Economics Division.

130—SPORTS CAR HOUSING

Some people drive station wagons. Others drive sports cars. More and more housing seems designed for those who like life in the fast lane.

(Cover: Windswept Ocean Villas, Kiawah Island, S.C. Photo: Gordon H. Schenk, Jr.)

168—FAVORITE 50

Our annual recap of the 50 new products that generated the most inquiries last year.

194—GROUND BREAKERS

Mobil is best known as an oil company, but a subsidiary of the energy giant is striking it rich in real estate. Windward, a 3,250-acre project in Atlanta, is a good example of how Mobil has prospered in the land development business and helped out small builders as well.

198—GOODBYE TO THE DETACHED HOUSE?

Or should it be au revoir? Because detached housing, which many observers wrote off along with big cars and wide ties, doesn't seem likely to disappear.

OUTLOOK

MODESTY THE BEST POLICY

Michael Sumichrast
NAHB Chief Economist

This year will be a fairly good year for housing. Production will be slightly better than the 1.68 million starts achieved last year, with single-family starts increasing by 75,000 units to a 1.143 million level.

There are several reasons for this rather modest forecast. One is the level of interest rates; they will probably decline slightly next year. Mortgage rates may well drop 75 basis points. If we are lucky, they will drop slightly more. That will put the fixed-rate mortgage down to about 12.5 percent, and variable rates offered in the market will be even lower. The decline is likely despite the fact that the government sector will take a record share of available funds.

A second reason for forecasting a good year for housing is that demand still seems quite strong. This is evident from consumer expectation surveys as well as NAHB's Builder Economic Council (BEC) monthly surveys.

The third reason is that the economic recovery will continue here as well as overseas. In Europe, 8 out of 10 countries are showing an increase in industrial production and gross national product. The world's industrial nations as a whole will show at least a 4 percent rise in industrial production this year. Industrial production is increasing at double-digit rates in Canada and Japan.

In the developing countries, the recession and a relatively good harvest depressed most commodity prices. But with the sharp economic recovery in the U.S., as well as the payment in kind (PIK) program, commodity prices have increased 20 percent compared with a year ago. This is helping many developing countries and will boost world trade.

At the same time that economies worldwide have improved, inflation has subsided in most industrialized countries. Belgium was the only European nation still suffering from double-digit inflation at the end of last year. In Japan, consumer prices are up only 1.1 percent from a year ago.

However, unemployment still persists. In the 12 industrialized nations only the U.S. and Canada have lower rates than a year ago. Unemployment is 15.4 percent in Belgium, 17.7 percent in Holland and an unprecedented 9.4 percent in West Germany.

TOP 20 METROPOLITAN AREAS FOR HOUSING STARTS IN 1984

City	1983	1984	Percent change
Dallas-Fort Worth	109,100	84,100	–22.9
Houston	58,300	46,050	–21.0
Atlanta	41,950	40,235	–4.1
Phoenix	43,000	36,000	–16.3
Washington, D.C.	27,535	24,700	–10.3
West Palm Beach-Boca Raton	17,383	22,900	31.7
Tampa-St. Petersburg	23,050	21,800	–5.4
Chicago	17,780	20,400	14.7
Orlando	20,560	19,420	–5.5
Denver-Boulder	23,500	19,000	–19.1
San Diego	14,050	19,000	35.2
Los Angeles-Long Beach	16,000	18,000	12.5
Minneapolis-St. Paul	15,900	17,500	10.1
Miami	12,690	15,500	22.2
Baltimore	15,840	15,180	–4.2
Fort Lauderdale-Hollywood	11,786	15,000	27.3
Riverside-San Bernardino-Ontario	14,500	15,000	3.4
San Antonio	15,950	14,500	–9.1
New York	14,460	14,185	–1.9
Philadelphia	14,690	14,000	–4.7
Total—top 20 SMSAs	**528,024**	**492,470**	**–6.7**
United States total	**1,683,300**	**1,692,200**	**0.5**
Top 20 SMSAs as percent of U.S. total	**31.4%**	**29.1%**	**—**

Source: NAHB Forecasting Service

Just as unemployment has burgeoned, interest rates are close to all-time highs. In 8 out of the 12 industrialized countries, the prime rate is still at a double-digit figure. The most urgent task is to bring all rates down so that the worldwide economic recovery can continue.

In the United States, economic rebound is continuing at a better rate than expected. More and more this recovery resembles previous recoveries.

As usual, housing has been in the forefront of the upturn. In terms of GNP, residential construction jumped 53.2 percent in the fourth quarter of 1982, 57.3 percent in the first quarter of 1983, 79.5 percent in the second quarter of last year and 39 percent in the third quarter.

Last October unemployment in the construction industry dropped by 3 percentage points to 15.2 percent from 18.2 percent in September. That was the sharpest drop ever and brought 177,000 workers back to work.

Now other sectors of the economy are improving; inflation, at 3 percent, is far below its level a year ago and so is real per capita income, after a miserable three years of decline.

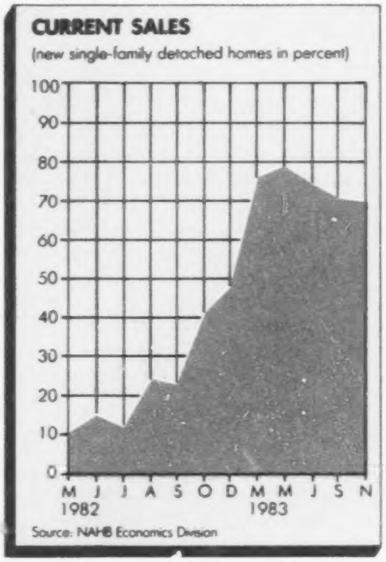
Corporate profits also are up sharply, increasing at an annual rate of 15 percent after more than three years of decline.

In the past, NAHB's BEC survey of builders was a good indicator of future activity. For example, surveyed builders foresaw the slowdown in sales during the summer as all interest rates started to notch up.

The November survey showed little change from the summer, but it did show that builders are still rather bullish about the near future (although not quite as bullish as they were in the spring). The single-family market appears to be particularly strong. In this sector actual

OUTLOOK

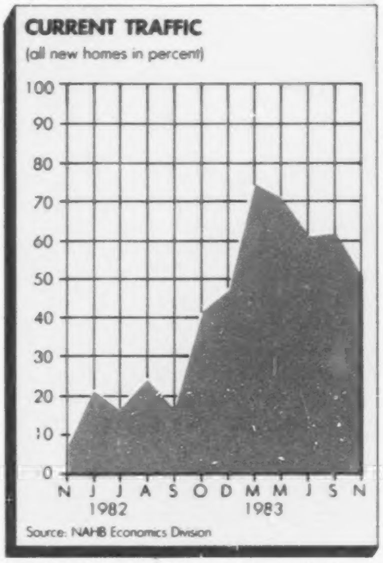
PERFORMANCE POLL: a periodic survey of builders


CURRENT SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

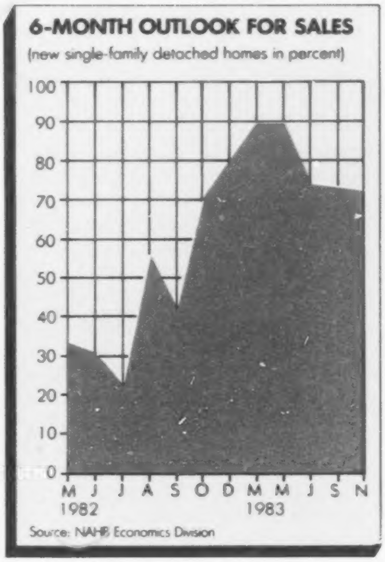
For the third month in a row close to 75% of the builders indicated that new home sales were fair to excellent.


CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division

Traffic was down in all regions, with the largest decline in the West. Seasonal factors accounted for the decline.


6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

Most builders expect sales to remain the same during the next 6 months. Nearly 75% expect sales to be fair to excellent.

6-MONTH OUTLOOK FOR SALES

(new single-family detached homes by region)

North Central
Good Fair Poor
14% 52% 34%
Northeast
Good Fair Poor
45% 32% 23%
West*
Good Fair Poor
8% 58% 34%
*Includes Alaska, Hawaii and Puerto Rico
South
Good Fair Poor
36% 42% 22%

Source: NAHB Economics Division

Builders expectations are highest in the South and the Northeast. Expectations are lower in the West and North Central regions.

OUTLOOK

sales, as well as builder expectations, are still strong. On the other hand, condo sales have declined and townhouse sales have dropped slightly. Builders also are somewhat less optimistic about the condo and townhouse markets than they are about single-family housing sales.

Of course, not all areas are participating equally in the recovery, nor will they in the future. NAHB's new econometric forecast shows a great deal of variation between regions.

Housing starts in the Northeast and North Central are projected to increase by about 18 percent, with a slight decline—1 percent—forecast in the West and a larger decline —about 6 percent —likely in the South.

Among the 100 largest metropolitan areas, Dallas-Fort Worth will again be the top producer, even though starts there will drop by 23 percent this year to 84,000 units.

Houston will remain number two, but production of new units there this year will decline 21 percent to 46,050 units.

Atlanta will take third place, followed by Phoenix, Washington, D.C., West Palm Beach-Boca Raton, Tampa-St. Petersburg, Chicago, Orlando, Denver-Boulder and San Diego.

The top 20 cities built 528,000 new units last year, or 31.4 percent of total starts. This year they will account for 492,500 units or 29.1 percent.

NOTES

TRAFFIC IS LIGHTER

Home sales and traffic declined in the second half of last year, but that's not all bad, according to Advance Mortgage Corporation. It has helped starts catch up with sales, without causing a buildup in single-family inventory. The few markets where sales remained as strong as earlier in the year are Denver, San Diego and the single-family sector of South Florida, Advance reported. In a few other markets—Chicago, Seattle, Riverside-San Bernardino, Calif., and Central New Jersey—sales dropped off 50%.

$250 MILLION SECURITIES SALE

The Federal National Mortgage Association (Fannie Mae) sold $250 million in mortgage-backed securities late last year. Backed by conventional fixed-rate, 30-year loans, the securities yield is 12.61%. The sale brought the total amount of mortgage-backed securities issued by Fannie Mae to more than $27 billion.

PRIME RATE UNCHANGED

For the third consecutive month, the average prime rate was 11% in November. It should stay in the 10 to 11% range for most of this year, according to a recent survey of lenders conducted by the J. I. Kislak Mortgage Corporation. Lenders predicted that the prime rate could fall to as low as 10.25% by April before moving up again. They also predicted that rates on six-month Treasury bills will remain fairly constant for most of the year, dipping from an estimated 8.75% at the end of the first quarter to 8.25% by September.

EXISTING HOME SALES DOWN

Sales of existing houses in October declined in every region, most dramatically in the West. Total resales fell nearly 5% to a seasonally adjusted annual rate of 2,590,000. The decline was 11.5% in the West, 6% in the Northeast, 4.5% in the North Central and 1% in the South.

RENTAL VACANCIES AT 7-YEAR HIGH

At 5.8% in the third quarter of 1983, the rental vacancy rate was its highest since 1976. Regionally, the rate was highest in the South, where it reached 7.1% in the fifth consecutive quarterly increase.

SMALL INVESTORS ARE BIG

Nearly half the estimated $4 billion invested in real estate limited partnerships in 1983 came from small investors, according to the accounting firm Kenneth Leventhal & Company. "This participation by small investors was virtually unthought of only two years ago," said Stephen Roulac, a partner with the firm. Liberalized regulations for IRA, Keogh and small pension plans opened the door for investing in real estate," he said.

1983 SALES UP

During the first 10 months of last year, new single-family sales totaled 535,000, an increase of 57% from the 340,000 sales recorded for the same period a year earlier.

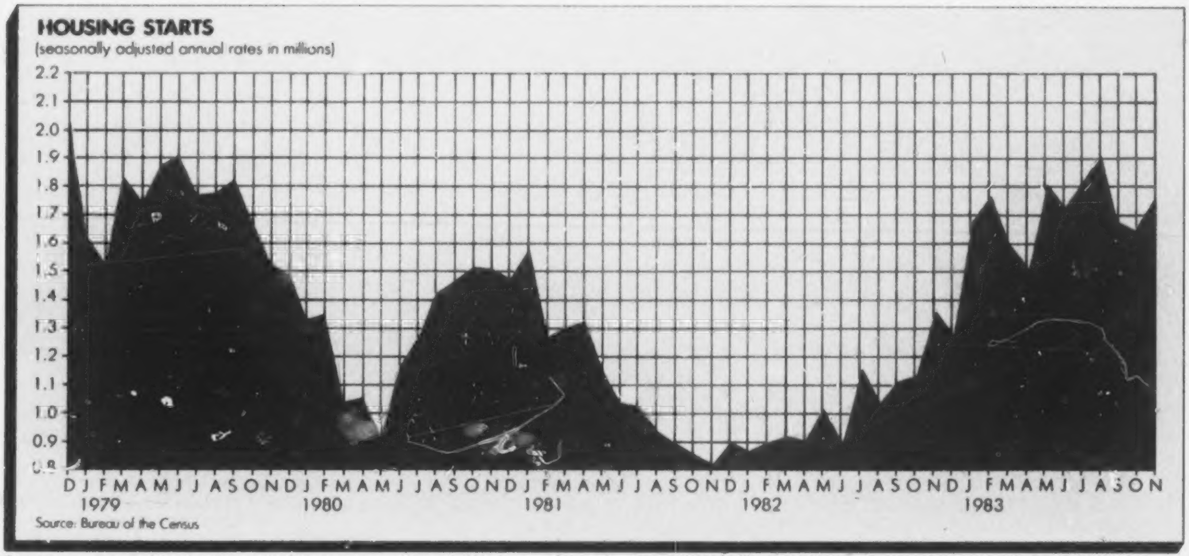
STILL A GOOD INVESTMENT

Despite the recent recession, property values generally have not fallen, according to Reaves Lukens, Jr., president of the American Institute of Real Estate Appraisers. While property values may not be appreciating as rapidly as in the late 1970s, real estate can still be a good investment, Lukens said. "There most assuredly will be inflation in the years to come, and over the long term most people should benefit by their purchase of property."

PENT-UP DEMAND PAST PEAK

Only part of the leveling off in sales during the second half of 1983 can be blamed on the rise in mortgage rates, said Advance Mortgage Corporation President Walter Klein, Jr. "Rather, what we are told in market after market is that pent-up demand has been topped off." In some Sunbelt markets, increasing competition from rentals also has siphoned off sales. "There probably is another pool of first-time buyers that could be turned on if rates drop low enough," Klein added. "We judge the next turn-on point would have to be 11.5% or under for FHA, 12% or under for conventional."

OUTLOOK

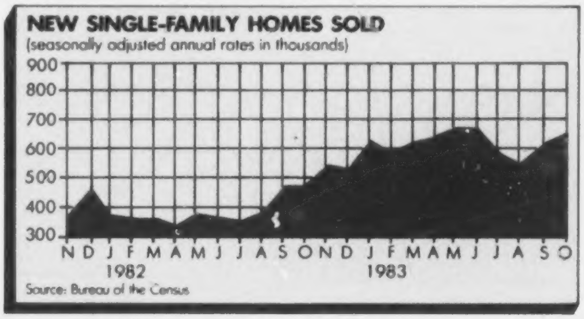


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

Starts were surprisingly strong in November, rising 6.4% to an annual rate of 1.76 million units. Single-family starts climbed 5.4% to 1.07 million, and multifamily starts jumped nearly 8% to 691,000. Total starts were up 25% from a year earlier.

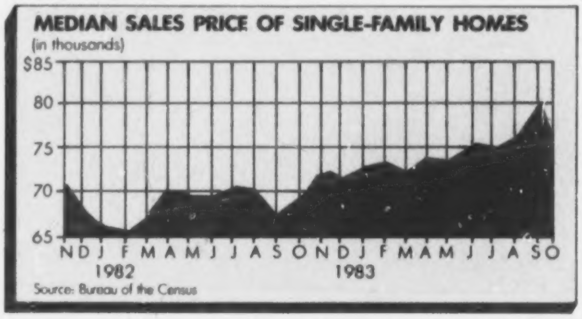


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

New house sales increased 8% in October to an annual rate of 660,000 from a revised September rate of 610,000. It was the second highest sales rate since October 1979.

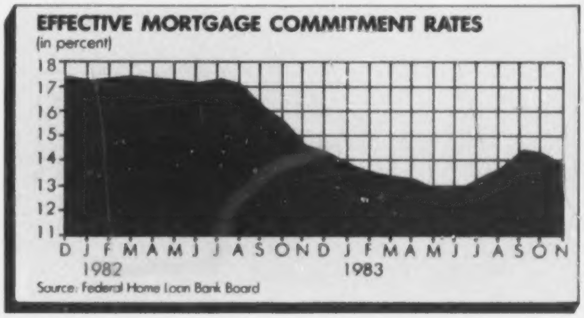


MEDIAN SALES PRICE OF SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median price of new houses fell nearly 6% in October to $76,100 from a revised September price of $80,800. However, October prices were still 9% higher than a year earlier.

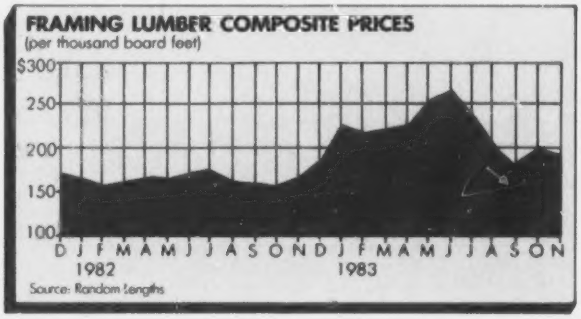


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

Mortgage rates slipped in November for the second month in a row. Fixed rates declined 16 basis points to 13.92% while uncapped adjustable rates dipped 13 basis points to 12.54%.



FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices receded slightly in November to $195 per thousand board feet from $200 in October. The November price was 15% higher than a year earlier.

NEWS

BUSINESS

BUILDERS LOOK AHEAD, SEE A GOOD YEAR

"The home building climate in 1984 won't get better or worse," said Charles Peck, chairman, the Ryland Group.

"I'll be happy if 1984 is as good as last year," said Jim Joyce, vice president, Anden Corporation, Chicago.

These sentiments sum up many builders' feelings about the year ahead.

Big builders, such as U.S. Home, General Homes, Ryland and Oxford Development, predict that this year will be the same or slightly better than 1983, which was a record year for most of them.

The picture looks even brighter to a number of medium-size builders including M.D.C. Corporation, Denver; Pacific Scene, San Diego; and Toll Brothers, Inc., Philadelphia. All built a record number of housing units last year and expect activity to jump 30 to 55 percent this year.

Here are some trends major builders see in the year ahead:

- Most builders aren't planning any major changes in product; that happened in 1982 and 1983 when downsizing for affordability became the only way to go. Some say they will continue to downsize slightly but plan to stress affordable detached houses rather than low-priced condos.
- Mortgage rates should stay about the same as last year.
- The first-time buyer market is expected to remain strong, but in many areas a good portion of that demand has been satisfied. Builders expect the move-up market to improve, but they don't believe it will take off as the starter market did last year.
- More and more large builders are taking the plunge into the builder bond business, primarily as a way to increase tax benefits. For example, U.S. Home Corporation, which has issued its own mortgage-backed securities since 1979, expects bonds to finance nearly 50 percent of its sales this year, up from about 25 percent in 1983.

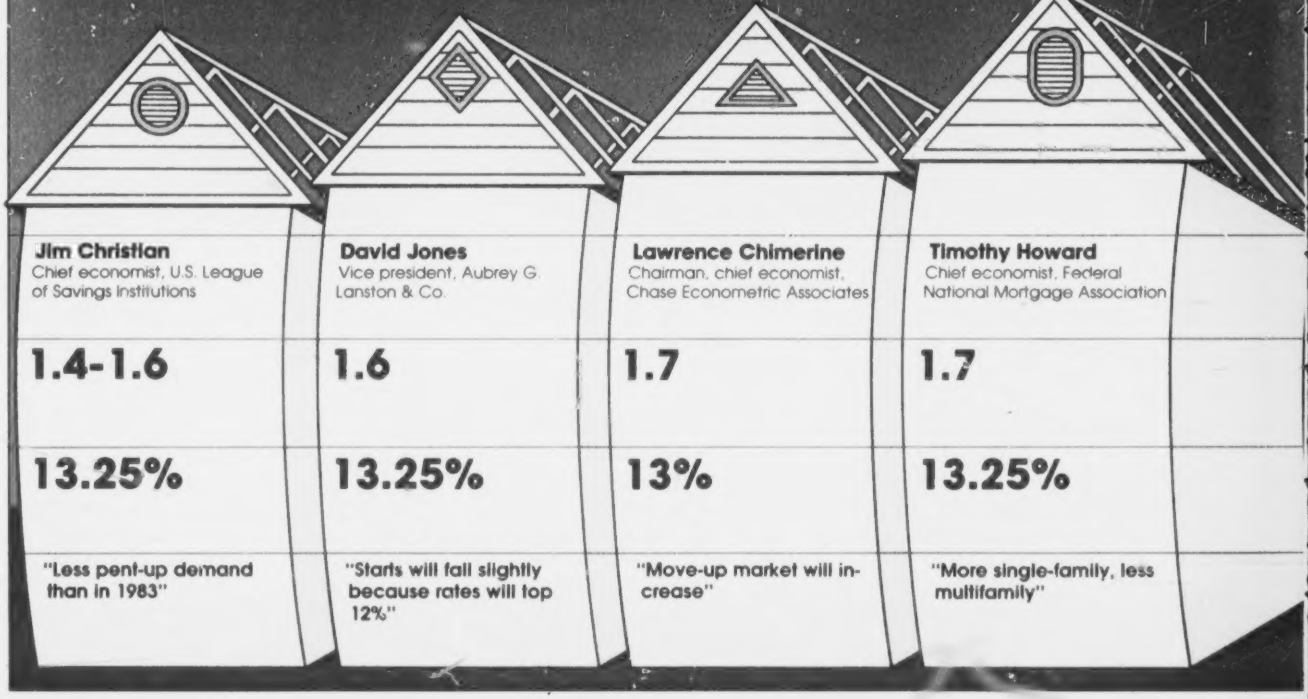
Here is what some of the largest builders in the country are planning for 1984:

Jeff Payson
General Homes Corporation

Fast-growing General Homes Corporation, Houston, built a record 5,500 houses last year—almost all of them detached units—and expects production to increase slightly this year.

WHAT THE FORECASTERS SEE FOR 1984

Most economic forecasters, like most builders, expect a fairly good year ahead for housing. The majority forecast about 1.7 million starts for this year—nearly the same as in 1983. A few thought starts could go as high as 1.8 million or as low as 1.4 million. Almost all predict that rates for fixed-rate mortgages will remain at 1983 levels—about 13.5 percent—throughout this year. Here are forecasts for 1984.



Jim Christian Chief economist, U.S. League of Savings Institutions	**David Jones** Vice president, Aubrey G. Lanston & Co.	**Lawrence Chimerine** Chairman, chief economist, Chase Econometric Associates	**Timothy Howard** Chief economist, Federal National Mortgage Association
1.4-1.6	**1.6**	**1.7**	**1.7**
13.25%	**13.25%**	**13%**	**13.25%**
"Less pent-up demand than in 1983"	**"Starts will fall slightly because rates will top 12%"**	**"Move-up market will increase"**	**"More single-family, less multifamily"**

President Jeff Payson predicted that the firm's single-family starts will decline somewhat in Houston but will increase in Dallas, Phoenix, New Orleans, Tampa and Orlando.

Single-family starts in Houston probably will fall, Payson said, because in-migration has all but stopped, the economy is still weak and the apartment vacancy rate is about 20 percent.

"Apartment managers used to be our allies because they were raising rents and didn't like kids and dogs," he said. "But now they are lowering rents, offering bonuses to extend leases and have taken a liking to kids and dogs."

General Homes plans to slightly reduce the size of its houses from an average of about 1,600 to 1,550 square feet. On the other hand, prices which last year averaged $68,000, will increase, except in Houston. Payson said the company may stop buying down mortgage rates and instead minimize price increases.

General Homes' plans don't call for building more attached houses because first-time buyers, the company's primary market, "don't want to move from one apartment to another," Payson said. "They want a detached house—not for financial reasons, but for the lifestyle."

Giant U.S. Home Corporation, Houston, this year expects to deliver slightly more than the 10,600 on-site units and 6,780 mobile and modular units it built last year.

Single-family detached (average price $68,900) accounted for about 60 percent of last year's activity, and George Matters, president of U.S. Home, doesn't expect that proportion to change this year unless mortgage rates do.

"If interest rates decline and the market picks up significantly, the mix probably will include more detached units," he said. "If rates go up, we'll build more attached units."

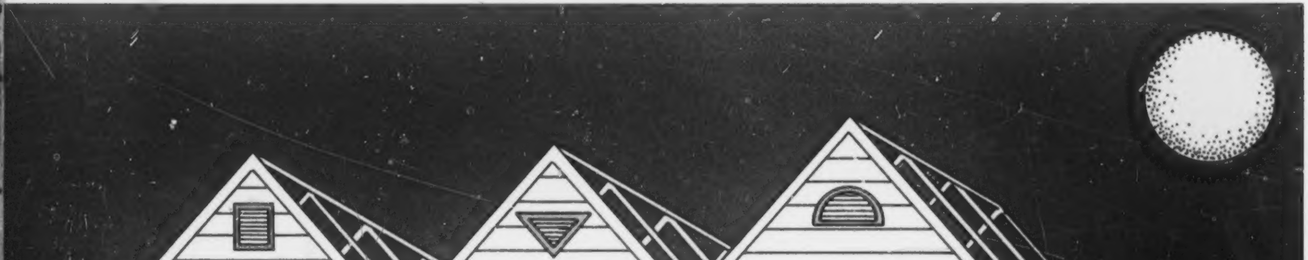
George Matters
U.S. Home
Corporation

U.S. Home builds in 28 states, and Matters expects last year's best markets—Phoenix, Bakersfield, Denver and Tampa—to remain strong.

Last year M.D.C. Corporation, Denver, built 1,250 units, a record number, and this year M.D.C. expects production to increase another 30 percent. Much of that growth will be centered in Denver, where the company plans to continue to emphasize affordable detached houses.

"Two years ago we weren't in that market," said M.D.C. President

see BUILDERS p. 52

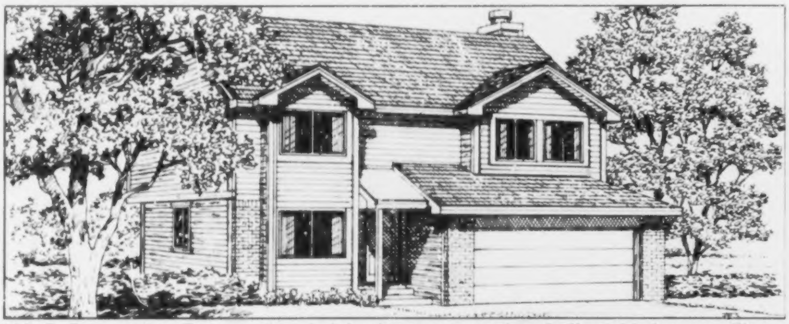


George Christie Chief economist, McGraw-Hill Information Systems	**Donald Straszheim** Vice president, Wharton Econometric Forecasting Service	**Tom Harter** Chief economist, Mortgage Bankers Association	
1.73	1.79	1.8	Housing starts forecast (in millions)
13-14%	13.6%	12.5%	Mortgage rate forecast (30-year, fixed-rate loans)
"Not much opportunity for further expansion"	"Solid economic growth"	"Lower rates due to low inflation, weak business borrowing and the election"	

Graphics: Bob Reynolds

NEWS

BUILDERS



M.D.C. Corporation, Denver, plans to introduce a new series of affordable houses with 1,040 to 1,483 square feet and a starting price in the mid-$70s.

Michael Feiner. "Now it accounts for about 40 percent of our production, and that's where we expect most of our growth in 1984."

Plans call for introducing a new series of affordable houses ranging from 1,040 to 1,483 square feet with a starting price in the mid-$70s (see rendering). M.D.C.'s current line of affordable houses has from 1,200 to 2,400 square feet and starts in the mid-$80s.

The company also builds lower-priced condos and higher-priced semi-custom houses, but Feiner expects the condo market to shrink and the semi-custom market to hold steady.

Michael Feiner
M.D.C.
Corporation

Last year M.D.C. joined other builders to form American Southwest Financial Corporation, which issues multi-builder bonds. The company raised about 40 percent of its permanent financing needs through the bond program, and Feiner aims to make it 100 percent this year. He said the bonds reduced financing costs about 150 basis points in addition to providing favorable tax benefits and additional cash flow.

Ryan Homes, Pittsburgh, expects the move-up market to be stronger this year, but the starter market will remain its bread and butter.

During the first three quarters of last year, Ryan sold 6,260 homes, 40 percent of them attached. Four years ago only 14 percent of the houses Ryan built were attached, said Steven Smith, president and chief operating officer.

With its detached houses, Ryan plans to move in the direction of narrower units—30 to 34-foot-wide units on 40 to 45-foot-wide lots—but does not expect to reduce the size of starter units from current levels, 1,200 to 1,400 square feet.

This year the company will concentrate on expanding market share in five new markets it entered in 1983—Houston, Orlando, West Palm Beach and Jacksonville, Fla., and Virginia Beach, Va. Washington, D.C., was Ryan's best market in 1983, but Smith said activity was better everywhere, even in the company's northern industrial markets. This year's hot spot, he said, is likely to be Florida.

Smith indicated that prices may go up this year from their current range of $39,900 to $129,000 because "the housing recovery has put pressure on lot prices."

On the financing front, builder bonds have become Ryan's primary source of permanent financing since the company started issuing its own bonds in 1982. So far, the bonds have all been backed by FHA-VA mortgages, but Ryan expects to issue its first bond backed by conventional loans this year.

Although apartment building nationwide is predicted to fall off this year, Oxford Development Corporation, Bethesda, Md., expects to build the same number of units this year as last, 4,500 apartments, a record number.

The relatively high national vacancy rate "has made us more cautious," said Oxford President Leo Zickler. "But we build an upscale product and haven't been hit with high vacancies."

Zickler said Oxford's average vacancy rate is about 4 percent. He predicted central Florida will be the company's best market in 1984.

After having downsized units by 5 percent in late 1982, Oxford doesn't plan any substantial changes in its product line—a typical unit now is approximately 1,000 square feet.

However, the firm does plan to start building rental projects with an eye to converting them to condos in five to seven years.

"We think the gap between the cost of renting and owning will continue to favor owning," Zickler explained. "And many young people will be better off buying an apartment, at least as a starter home."

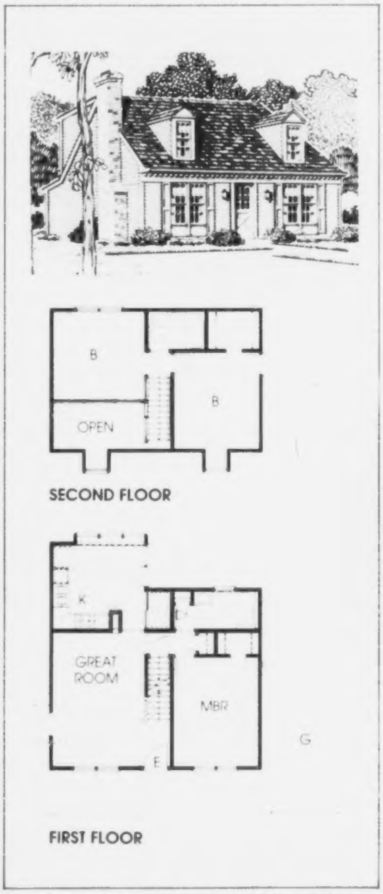
The method of financing also may change this year. "Congress adjourned without resolving the issue of tax-exempt financing for multifamily housing," Zickler said, "so we may not be able to continue to use it. Taxable financing will be available, but the higher interest costs may force us to rethink or redesign some projects."

Currently, about two-thirds of Oxford's financing comes from syndications and the rest from joint ventures with institutional investors.

Ryland Group, Inc., Columbia, Md., predicts that this year's production volume will be about the same as last year's—which turned out to be a record: 5,000 units built including 500 factory-built modular units. The previous Ryland record was 4,000 units in 1978.

This year the company plans to open a third modular housing factory in Fredericksburg, Va., and to enter two new markets—Boca Raton, Fla., and Phoenix. Within the last two years, Ryland has set up shop in Dallas, Charlotte and Raleigh, N.C., and Orlando and Tampa.

"The health of the housing business won't be the same in all markets," predicted Charles Peck, Ryland's chairman of the board. "The Midwest will experience a strong recovery. Houston will continue to waver. Florida will grow.



Small but stylish, this is one of the Ryland Group's new affordable plans for 1984. It features a great room rather than separate dining, living and family rooms, a loft and a two-story entry.

"As the economy improves," he continued, "the blue collar market will come back. Another strong force in 1984–85 will be the 'echo' baby boom. When young couples have children they want to move out of that apartment into a single-family detached house."

According to Peck, the company's primary objective this year is to increase its market share in current markets by offering a greater variety of plans and continuing to build higher-density, smaller units.

Consequently, Ryland is offering a new series of two-story house plans ranging from 750 square feet (plus 650 square feet of unfinished space on the second floor) to 1,540 square feet. With prices estimated from the $60s to the $90s, depending on the market, they aren't Ryland's least expensive houses, but they are more stylish than the company's typical low-end product (see rendering).

Like a number of other large builders, Ryland has taken the plunge into multi-builder bonds—its first issue was last fall—and plans to expand that financing source significantly this year.

Tawfiq Khoury
Pacific Scene, Inc.

Last year was a period of tremendous growth for Pacific Scene, Inc., San Diego, and its president, Tawfiq Khoury, expects this year to be even better.

Pacific Scene plans to build 2,500 homes this year, up from 1,850 in 1983. Sales volume last year totaled $185 million compared with $39 million in 1982.

"We did so well because we decided in March 1982 to go ahead with several new projects that were ready in November just in time for the turnaround," Khoury said.

The gamble included downsizing from an average of 1,450 to 1,200 square feet and building more attached units. The downsizing is over—at least for now—but Khoury plans to increase the proportion of attached units to 60 percent from 50 percent.

Currently, Pacific Scene's houses, both attached and detached, are priced from $59,000 to $120,000 with an average price of about $85,000. Its markets include San Diego, Sacramento, Fresno, Bakersfield, Riverside and Phoenix.

The company's primary customer is the first-time buyer, and Khoury expects that market to remain strong this year.

Affordable housing is nothing new to Development Corporation of America (DCA), Hollywood, Fla. The large South Florida builder has been in that market since 1955. But now that many other builders have started building lower-priced units and competition has stiffened, the company plans to expand its detached products and reduce the proportion of condos.

According to Alvin Sherman, DCA's president and chairman of the board, the firm will cut back condos from 75 percent of production to about 60 percent this year.

Sherman expects to build at least 3,000 units this year, up 10 to 15 percent from 1983. Some of that growth will occur in two new markets—Tampa-Clearwater and Orlando.

In addition to expanding into new markets DCA is changing its method of financing. The firm's mortgage company started issuing builder bonds—$50 million worth—in 1983, a move that financed about 40 percent of sales. Sherman expects bonds, which he said lower financing costs about one point, to provide 60 percent of financing needs this year and eventually 100 percent.

Jim Joyce, vice president of Anden Corporation, described 1983 as "outstanding," following a dismal 1982 when "we cut our operation to the bone and did anything we could to stay alive."

Last year Anden built 265 detached houses priced from $63,000 to $76,000 in the Chicago suburb of Naperville. With 1,080 to 1,584 square feet, the houses were downsized from previous products ranging from 1,500 to 2,100 square feet.

"The project was successful because of enormous pent-up demand," said Joyce, adding that some of that de-

Jim Joyce
Anden
Corporation

mand has been drawn off. Anden also was able to find 12 percent conventional financing for the project, which helped, especially with first-time buyers, who accounted for 70 percent of sales.

"We'll do whatever we have to to provide 12 percent rates again this year," Joyce said.

The company plans to build another 160 detached units this year in the same subdivision but with more options. "We expect the market to be more competitive in 1984, so we're trying to offer more for the same price," he said.

Anden also will offer a new product: a combination of townhouses and flats in six-unit buildings. The company plans to build 180 of these units, priced from $65,000 to $80,000 with 1,160 to 1,460 square feet. Each will have an attached garage, and some buildings feature an interior atrium.

Toll Brothers, Inc., Horsham, Pa., had a record year in 1983: $70 million in sales of 550 units including 170 townhouses and condos. And its president, Robert Toll, predicted production will grow "at least 55 percent" this year to about 850 units.

Toll Brothers builds primarily for the move-up and transfer markets in the Philadelphia suburbs and north through central New Jersey. Prices range from the $60s to $200,000.

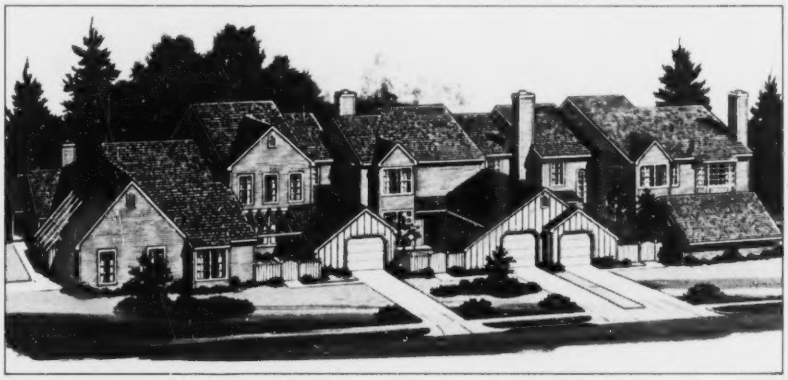
At an average price of $120,000 and an average size of 2,500 square feet, the detached house is expected to remain the company's primary product, but Toll said the multifamily proportion will grow this year.

"We're increasing the percentage of multifamily," Toll said, "because zoning for it is becoming more available. Municipalities are slowly realizing that they can permit multifamily development without ruining the community. And there is greater market acceptance.

"People will pay more for somewhat less space if the product is exciting," Toll continued. "We're putting amenities in townhouses that we previously offered only in detached houses. We're making townhouses a choice, not a compromise." (see rendering).

Still, Toll believes the detached house remains the backbone of the residential building business. "For 15 years we've been hearing that the single-family detached house is dying out," he said. "But it isn't true, and it isn't going to be true for the foreseeable future."

Carol Anderson, News Editor



Toll Brothers, Philadelphia, is offering a new product this year: more expensive townhouses with amenities the company previously provided only in detached houses.

BUSINESS

S&L PROGNOSIS: 1984 AT LEAST AS HEALTHY AS 1983

Savings and loans predict this will be a good year for home mortgage lending—at least as good as last year and possibly a little better. They expect mortgage rates to remain at current levels throughout the year, with a dip in fixed rates likely in the spring.

Many S&Ls are basing their expectations for a healthy volume on the increasing popularity of adjustable rate mortgages (ARMs). The main reason those loans are gaining is that lenders are finally pricing them right—often two or more points below fixed rates.

Here is how a number of S&Ls around the country see the year ahead.

Gibraltar Savings, Houston, predicted its residential lending volume will increase 35 percent to $540 million this year even though the Houston economy is expected to remain in the doldrums.

According to Steve Roberts, vice president of residential lending, the S&L anticipates stronger mortgage activity due to the increasing popularity of lower-rate ARMs.

"And the election should bring fixed rates down slightly to 13 to 13.5 percent by the third quarter," Roberts added.

Nevertheless, Gibraltar expects fixed-rate mortgages to decline as a percentage of total volume from 50 percent in 1983 to 30 percent this year due to more attractive initial rates for ARMs.

The S&L's most popular mortgages are three and five-year ARMs with initial rates as much as two points below fixed-rate loans. Roberts expects those ARMs to be even more successful in the year ahead.

City Federal Savings & Loan, Elizabeth, N.J., made $2 billion worth of home mortgages in 1983 and expects the amount to increase this year.

"We see heightened interest in home purchase, and we address the affordability problem with graduated ers think unemployment insurance for homeowners is a good idea. American Bankers Insurance Group, Miami, has prepared an unemployment insurance/accidental death benefit policy home builders can offer their buyers. Under American Bankers' Paygard 80's plan, builders pay a one-time fee of 1 percent of the cost of the home, payable at time of closing. Coverage is for up to 12 months during the first 2 years of ownership, with a $1,500 monthly payment maximum. In addition, the accidental death benefit would provide the family of a buyer with a lump sum equal to 12 mortgage payments.

American Bankers' plan is targeted to builders of more than 200 homes a year but, according to Cathy A. Durland, account manager with the insurance group, smaller home building companies are welcome to apply.

Paygard 80's will be available initially in the Sunbelt but, Durland added, the plan will go national if builder response warrants it.

In order to qualify for an unemployment insurance account with American Bankers, a building company undergoes a review. While the company may be acceptable, American Bankers reserves the right to exclude certain projects, particularly those where more than 10 percent of the homeowners are employed by the same employer or 25 percent are from one industry prone to strikes or layoffs. —P.L.

DEMOGRAPHICS

HOUSING MAY (OR MAY NOT) FOLLOW POPULATION TRENDS

Builders who like to plan ahead by tracking long-term demographic predictions will be interested in three 1983 surveys that may or may not indicate where the booming housing markets will be.

In what should come as no surprise, the Census Bureau predicted that, by the year 2000, 6 out of 10 Americans will live in the South and West. (As of the 1980 census, 5 of 10 Americans lived in these areas.) The West will grow fastest of all—increasing by 45 percent—with California pulling out in front as the most populous state (with more than 30 million residents), followed by Texas (nearly 21 million) and Florida (a predicted 17.5 million).

Two Harvard University professors who track regional trends contend that these growth changes will greatly influence housing, working conditions, urban life, social services and politics. Many of the Census Bureau's predictions, however, depend upon continued migratory patterns, a slightly higher birth rate and a longer life expectancy.

NEW METROPOLITAN AREAS AND THEIR POPULATIONS

The 38 areas in the United States designated by the federal government since the 1980 census. Two others in Puerto Rico are not shown.

Anderson, S.C.	133,235
Athens, Ga.	130,006
Bangor, Me.	137,015
Bellingham, Wash.	106,701
Benton Harbor, Mich.	171,276
Bremerton, Wash.	146,609
Burlington, Vt.	115,534
Casper, Wyo.	71,856
Charlottesville, Va.	114,560
Chico, Calif.	143,851
Cumberland, Md.	107,782
Danville, Va.	111,789
Dothan, Ala.	122,453
Florence, S.C.	110,163
Ft. Pierce, Fla.	151,196
Ft. Walton Beach, Fla.	109,920
Glens Falls, N.Y.	109,649
Hagerstown, Md.	113,086
Hickory, N.C.	130,207
Houma-Thibodaux, La.	176,876
Jacksonville, N.C.	112,784
Joplin, Mo.	127,513
Medford, Ore.	132,456
Newark, Ohio	120,981
Newburg-Middletown, N.Y.	259,603
Ocala, Fla.	122,408
Olympia, Wash.	124,264
Portsmouth-Dover-Rochester, N.H.	122,493
Redding, Calif.	115,715
Rock Hill, S.C.	106,720
Salisbury-Concord, N.C.	185,081
Sharon, Pa.	128,299
Sheboygan, Wis.	100,935
State College, Pa.	112,760
Victoria, Tex.	68,807
Visalia-Tulare-Porterville, Calif.	245,751
Wausau, Wis.	111,270
Yuba City, Calif.	101,979

Source: Census Bureau

Builders might not be too eager to flock to the areas that the Census Bureau says will be hot, anyway. A survey by *Sales and Marketing Management*, a magazine for sales and marketing professionals, indicates that personal wealth will not necessarily follow the migrants. Five years from now, the magazine claims, big consumer bucks will be comfortably entrenched right where they are now—in such Frostbelt suburbs as Nassau County, N.Y.; Stamford, Conn.; Lake County, Ill.; and Newark, N.J. The magazine survey wasn't looking at super-rich residents, rather, at communities of relatively well-off people—the very people who move up into higher end housing.

Yet another survey indicates that new growth patterns will feature sprawling metropolitan areas with no clearly defined centers, as opposed to big cities ringed by suburbs. The Federal Committee on Metropolitan Statistical Areas, which operated under the Office of Management and Budget, spent six years studying and redefining what it takes to make a metropolitan area.

Finding a great deal of population growth outside incorporated cities and towns, the committee repealed the longstanding requirement that a community must have a population above 50,000 to qualify as a central city within a metropolitan area. This designation is important because many federal programs base their formulas for distributing funds on the size and character of those key cities.

The committee's report, issued last summer, found Houma-Thibodaux, La. (population 176,876) and Visalla-Tulare-Porterville, Calif. (population 245,751) to be prototypes of the metropolitan areas springing up around the nation. Houma, for instance, has a population of around 32,600, as it has since 1970, and Thibodaux supports a population of 15,600, but there has been tremendous population growth in the corridor between the two towns. And the little California towns of Visalla, Tulare and Porterville, and their surrounding areas in the San Joaquin Valley, are growing rapidly but not in a concentrated manner. Though these areas do not have the usual urban living patterns and lack a metropolitan character, they are well on the way to becoming major population conglomerates.

The committee also revised boundaries and definitions for more than 300 areas. Several new central cities were designated within large metropolitan areas, and some areas were joined. The changes, several experts noted, are the most far-reaching since the government began designating metropolitan areas in 1910.—PL

ECONOMY

ECONOMISTS FORESEE UPBEAT '84

Business economists couldn't be more upbeat about 1984's economic prospects. A November 1983 poll of the 200 members of the National Association of Business Economists (NABE) asked the economists, who work for companies in a wide range of industries, about recent conditions in their own firms.

An overwhelming majority reported that during the last three months of 1983 demand, profits, employment and wages rose.

"What we're really talking about is strong evidence of good times in 1984," said Dr. Nicholas Filippello, president of NABE and chief economist of Monsanto Company, St. Louis.

Among the NABE members' predictions for 1984 were:

- Housing starts will total 1.7 million units.
- Auto sales (including imports) will reach 10 million units.
- Inflation will hold steady at 5 percent.
- Unemployment will decline to 8 percent.
- Real nonresidential fixed investment will increase by nearly 9 percent.
- Interest rates will remain unchanged in 1984.

At a press conference to discuss the NABE forecast, Dr. Filippello noted that the presence of high interest rates was unusual at this point in a recovery but that "the country was learning to deal with real interest rates better than we thought it could." Filippello added that economists were concerned that high budget deficits would force the rates up, but he thought that this was unlikely in 1984. He observed that because corporations' current cash flow (profits plus depreciation allowances) are growing more rapidly than corporate need for cash, the corporations are putting money into the system.

Dr. Nicholas Filippello, president of the National Association of Business Economists

"By 1985 that may be reversed," he added. If interest rates move back up, he explained, then budget deficits might have a greater effect on capital markets.

The NABE economic forecast took regional factors into account. Economists from the North Central states expected their area to lag behind the national economy, while economists from the Northeast, South and West expect their regional activity to be equal to or better than the national averages.

As to 1985 and beyond, the economists weren't as bullish; there was concern that the recovery could be aborted. Asked when they expect the current business cycle to peak, more than half said 1985.—PL

FINANCE

BORROWERS LET COMPUTERS DO THE WALKING

The day is rapidly approaching when home buyers will be able to search the nation for the best mortgage terms without making a single trip to a lender's office. They'll do it—how else—by computer.

Several regional computerized mortgage information and access networks already are in operation, most notably RKI Databanks in the San Francisco Bay area and the International Mortgage Exchange in Memphis. But this month two networks with national potential will go on line. One, operated by the National Association of Realtors (NAR) and dubbed Rennie Mae for Realtors National Mortgage Access, will be tested in the San Diego area and in all of Ohio.

By the end of the year, NAR President Harley Snyder said the majority of the 1,800 local realty boards should be able to use the system. All local boards could be on the system by the end of 1985, according to Snyder.

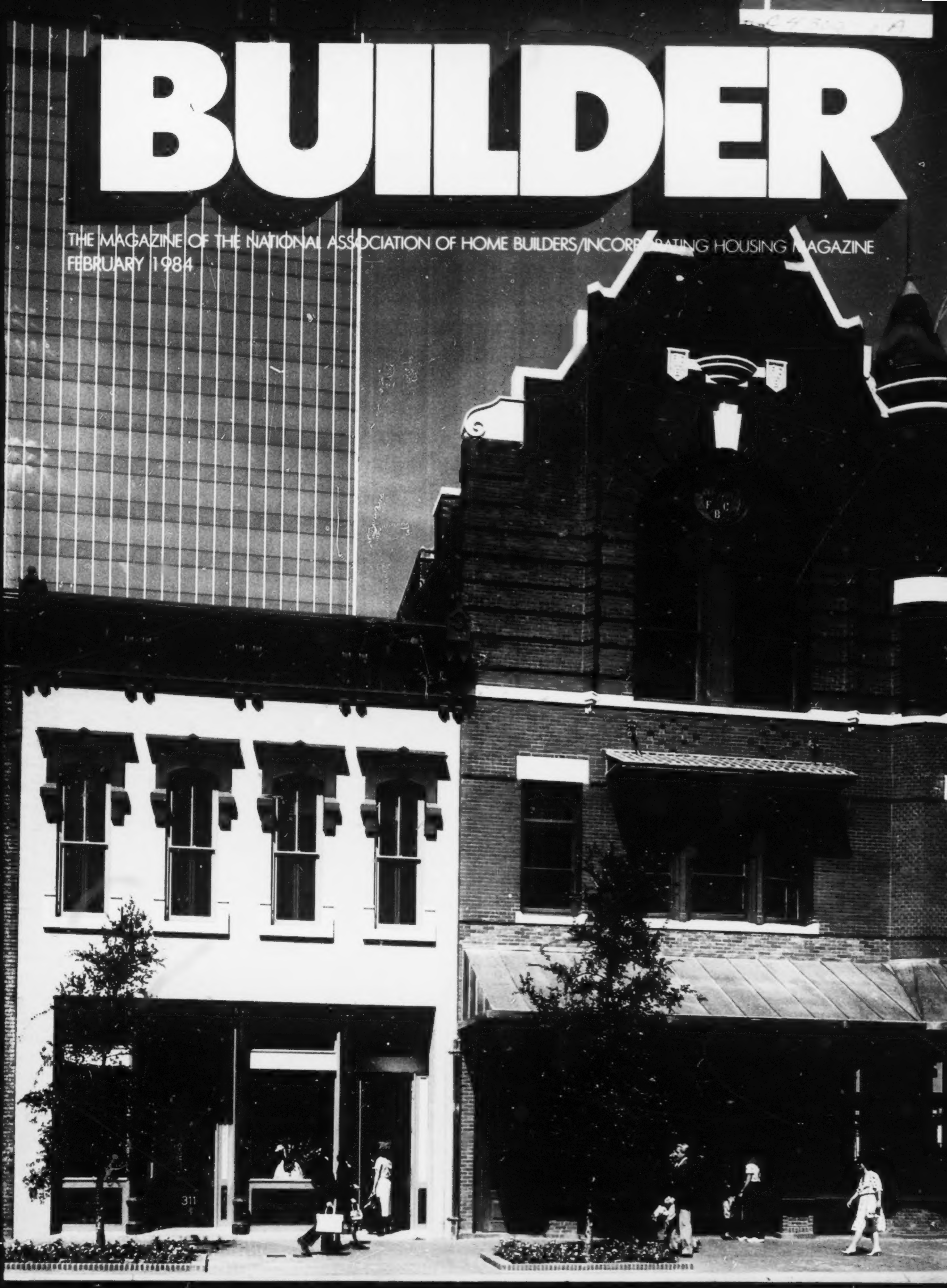
The other system network, Loan Express, will be run by the Planning Research Corporation of McLean, Va., one of the nation's largest providers of multiple listing services. Loan Express was scheduled to start operation in Washington, D.C., in January, then expand to other areas.

(Because these two systems will be aimed primarily at the existing home market, NAHB is taking a hard look at adding mortgage information to BuildNet, its infant news, information and electronic mail network. The association has met with PRC representatives about a Loan Express system exclusively for builders.)

Although Rennie Mae and Loan Express will have some differences, both will have essentially the same capabilities. They will put home buyers in direct contact with the products offered by local, regional and national lenders. No longer will buyers or their agents have to search through various rate sheets or make numerous phone calls to find acceptable financing.

The systems won't choose the right loan for buyers but they will present comparisons so buyers can make informed selections themselves. And they will cut down substantially on the time it takes to process loan applications.

The success of the networks hinges on the vast universe of mortgage originators that must feed their loan information into the systems and the thousands of brokers and builders who must learn how to retrieve it. For



BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
FEBRUARY 1984

NEWS

STAHL

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Although the NFPA is not as well known or as large as NAHB, Stahl said he doesn't look at his new post as any less prestigious. "I don't see it that way at all," he said. "It presents a new kind of management challenge.

"But I'm not moving very far away from the housing industry in either a physical or an issue sense. Remember, housing is the largest consumer of forest products."

Lew Sichelman, a syndicated housing columnist

ECONOMY

HOUSING WAS MORE AFFORDABLE LAST YEAR

Housing affordability made the greatest one-year improvement last year since the end of World War II, according to a study by Advance Mortgage Corp.

Including taxes and insurance, the average mortgage payment on a conventionally financed new house purchased in 1983 dropped to 34 percent of average household income compared with 43 percent in 1982 and 42 percent in 1981, the study found.

But the payment-to-income ratio is still high. Prior to 1979, it was never more than 30 percent.

Affordability improved last year because interest rates fell, real income was up and the average sales price of housing increased only 6 percent, Advance Mortgage noted.

The most affordable market last year was St. Louis, thanks to relatively low house prices and relatively high incomes. The most expensive market was the New York City area.

Declining house prices increased affordability in Miami-Fort Lauderdale and Tampa-St. Petersburg, which suffer from an overbuilt condo market, and in Portland, Ore., where unemployment is high.

Affordability also improved significantly in San Diego and in the San Francisco Bay area due to above-average gains in income and below-average increases in the already very high home prices.

Denver was the only market where affordability declined. The reason: Prices skyrocketed 40 percent, to $119,300.

HOUSING AFFORDABILITY

Mortgage payment-to-income ratios in major markets for conventionally financed houses[1]

MARKET	1983	1982
Atlanta	33.6%	42.3%
Boston	34.6	37.1
Chicago	30.4	33.5
Cleveland	25.7	31.8
Dallas-Fort Worth	32.2	34.6
Denver	36.5	32.0
Houston	30.1	32.7
Los Angeles-Orange and Riverside counties	39.1	47.7
Miami-Fort Lauderdale	29.4	41.9
Minneapolis-St. Paul	27.7	35.0
New York City area	41.4	46.0
Phoenix	30.7	40.5
San Diego	39.8	52.8
San Francisco Bay area	36.5	48.9
Washington, D.C.	37.3	42.1

[1] Mortgage payment includes property taxes and insurance; statistics include new and resale homes.

Source: Advance Mortgage Corporation

The increased use of buy-downs and adjustable rate mortgages helped blunt the impact of higher interest rates in the second half of last year, the study found. By the fourth quarter, buy-downs on fixed-rate loans averaged more than 1 point, Advance said. Also in the fourth quarter, for the first time since the 1920s, more than half the mortgages closed were ARMs.

Affordability improvements in the rental market were less evident than in the for-sale market. Rent increases last year continued to outpace inflation. Rents climbed 5.5 percent versus a 3.2 percent rise in the CPI.

The largest average rent increases were 9.5 percent in the San Francisco Bay area and 8 percent in San Diego and Dallas. The smallest rent increase was 1 percent in Seattle.

FINANCE

GUARANTEED RATES ARE BACK

Now that interest rates are relatively stable and expected to remain that way for the rest of the year, long-term mortgage commitments with guaranteed rates are coming back into style.

A number of secondary mortgage market participants are offering or planning to offer such commitments, including the Federal National Mortgage Association (Fannie Mae), NAHB's Home Mortgage Access Corp. (HOMAC) and Residential Funding Corp.

Generally, all the programs offer commitments up to eight or nine months. They provide a maximum rate at the time the commitment is obtained, but if rates fall by the time the commitment is converted from optional to mandatory delivery, builders and lenders get the lower rate.

However, guaranteed interest rates don't come cheap. Commitment fees reflect the length of commitments as well as the level of rate protection.

Fannie Mae is testing an eight-month standby commitment that allows builders and lenders to lock in the interest rate at the time the commitment is obtained.

If rates drop during the eight months, builders can obtain the lower rate by converting to a commitment that makes delivery of the mortgages mandatory. Alternatively, builders and lenders can decide what interest rate they want at the outset. The greater the rate protection, the higher the fee.

The eight-month period was selected to match the time a builder needs to construct a house, said Robert Mylod, president of Fannie Mae. "With this commitment, the builder can sell the house, fix the interest rate and then build the house."

Fannie Mae can offer this rate protection, Mylod said, "because we now have a systematic method of hedging interest rate risk."

Because fees are higher than those of Fannie Mae's standard mandatory commitment program, he said, "consumers could end up paying more in fees, but they have the certainty of knowing what their interest rate will be."

The commitment was sold during late January and early February on a test basis. It can be used for 30-year, fixed-rate loans and 1, 3 and 5-year adjustable rate mortgages.

Beginning this spring, HOMAC plans to offer commitments with guaranteed rates for two, four, six and eight months. As with Fannie Mae's program, the rate is locked in when the commitment is obtained but if market rates subsequently decline the commit-

see RATES page 50

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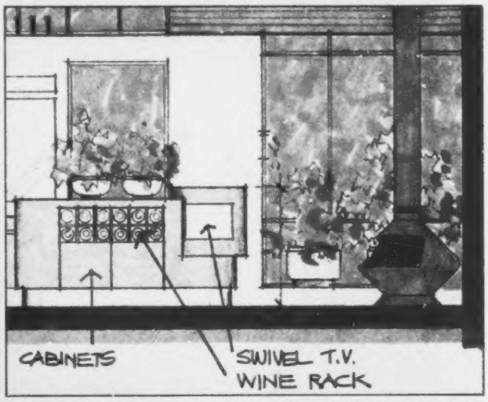
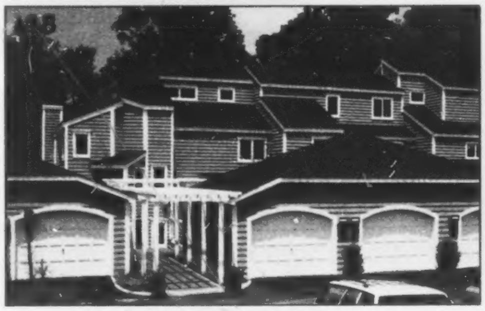




90—CELEBRATING THE CITY
For a generation almost nobody shopped downtown. Then came Faneuil Hall Marketplace in Boston and Harborplace in Baltimore. Now, in cities all across the country, downtowns are coming back to life, revived in many cases by ambitious new retail developments.

(Cover: Sundance Square, Fort Worth, Tex.)

98—PRODUCTS '84
Expecting a good year for housing, building supply manufacturers have introduced a big batch of exciting, new products.

111—KITCHENS AND BATHS
No matter how much housing changes one thing seems to stay the same: Kitchens and baths are important. But kitchen and bath design is changing, a point proven by a round-table discussion among leading builders, architects and designers.

118—GROUND BREAKERS
Introducing high-priced contemporary condos in the tradition-bound Richmond, Va., market was a big risk for Swift Creek Construction Company. But, thanks to careful research, good design and aggressive marketing, it paid off.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS PREPARED BY THE NAHB ECONOMICS DIVISION

In the Wake of a Downward Trend

Michael Sumichrast
NAHB Chief Economist

Last year housing expenditures hit a record $120 billion. That was a whopping 70 percent increase from the depressed level of $74.8 billion in 1982.

The increase in residential construction buoyed the whole construction sector, which showed a 15 percent increase in the value of all buildings put in place, even though private nonresidential building expenditures actually dropped $5 billion (to $60 billion) last year and public construction expenditures dropped almost $4 billion (to $51.4 billion).

Don't expect housing to sustain the whole construction sector again this year. At best, housing starts will be slightly higher than the 1.7 million new units started last year, but increases in total expenditures will not match the $42 billion increase registered in 1983.

What does all of this mean?

For one thing, it means that national economic growth will slow down. Estimates of growth during the last quarter of 1983, about 4.5 percent, are decidedly lower than figures for the two previous quarters: 9.7 percent for the first quarter and 7.6 for the second.

However, what is of greater concern is the trend toward lower expenditures for many types of construction.

For example, over the last five years expenditures for water and sewer have declined sharply. Sewer expenditures peaked during the 1978-79 period. Last year we spent $2.2 billion less for sewers than we did five years ago. In constant dollars (less inflation), the decline was nearly twice that.

During the same period expenditures for new water facilities dropped 22 percent. Part of the decline, but not all of it, is tied to the slowdown in housing; the larger part follows from a slowdown in public contributions to sewer and water. The burden has been shifted to builders and developers.

If this continues, it not only will affect the supply of finished lots; it also will increase their cost, because municipalities can obtain long-term funds at cheaper rates than private developers.

Another important shift has been the decline in expenditures for industrial construction. Expenditures for factories were down 21 percent last year. Over the last 10 years, factory expenditures have increased by only 68 percent, compared with 117 percent for all nonresidential construction and 96 percent for residential construction. Somewhere, sometime we must start building additional industrial facilities.

While factory construction has declined, the production of office space has shown a dramatic increase. But even that's not entirely good news.

The office market is generally overbuilt. No wonder. In current dollars, office construction increased from an annual rate of $5 to $6 billion in the mid-1970s to $13.3 billion in 1980, $17.5 billion in 1981 and up to $23 billion in 1982. Last year it was still a very high $21.4 billion. Currently office construction is outpacing industrial construction by 2 to 1.

The question is: How long can this trend continue and what are its implications?

When I asked a major drywall manufacturer whether or not the company planned to increase capacity (there is a shortage of drywall on the East Coast and in the South), his answer was: "No!"

Maybe this isn't the best example, but this industry is operating at nearly 100 percent capacity, and there is a clear need for more product but no plans to expand.

Most other industries aren't so strapped—total industrial utilization was at about 80 percent last November.

Nonetheless, last year we spent a meager 4 percent on private industrial construction, the lowest share of all construction in 11 years. Evidently the country's counting on sustaining economic growth by expanding service industries, communications and the computer industries. But there are limits to that kind of growth. We may be able to sell computers to other countries, but service industries are essentially domestic. They create little to trade with other nations and no goods to consume.

In the current recovery the lack of business investment and the lack of growth of residential construction will mean considerably lower economic growth and a potentially difficult political situation for President Reagan in the November election.

Of course, lower interest rates could change all this. If all rates dropped 2 percentage points and were available at less than 12 percent, we might build almost 2 million housing units this year. At that point even drywall manufacturers might reconsider and build some new plants.

PRIVATE NONRESIDENTIAL AND RESIDENTIAL BUILDING EXPENDITURES
(constant dollars, in millions)

	1978	1979	1980	1981	1982	October 1983
Nonresidential						
Industrial	$ 9.7	$11.4	$ 9.4	$11.0	$11.1	$ 6.7
Office	5.8	7.2	9.0	11.3	14.8	13.8
Commercial	10.7	11.8	11.2	10.9	9.1	9.9
Residential						
1 unit	54.2	46.3	31.9	28.7	22.5	42.0
2 or more units	11.7	13.6	12.2	11.8	10.3	15.8

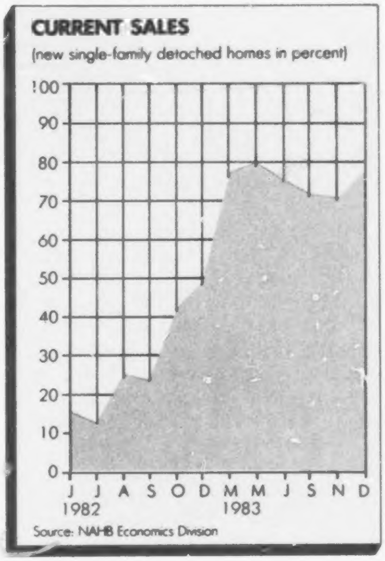
CHANGE IN EXPENDITURES 1978-1983
(in percent)

Nonresidential		**Residential (new housing units)**	
Industrial	–31%	1 unit	–23%
Office	138	2 or more units	35
Commercial	–8		

Source: Bureau of the Census

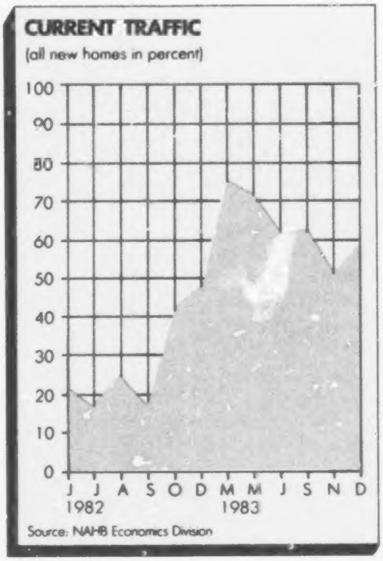
OUTLOOK

PERFORMANCE POLL: a periodic survey of builders


CURRENT SALES
(new single-family detached homes in percent)

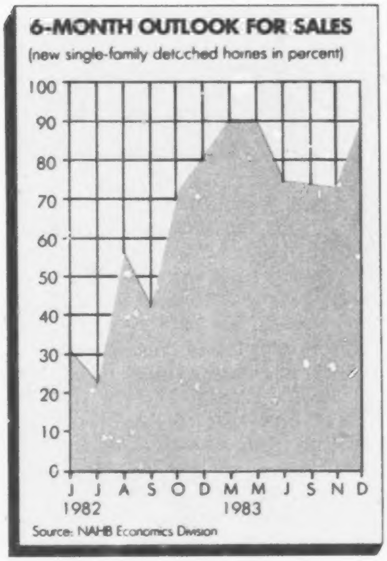
Source: NAHB Economics Division

After declining for three months, the percentage of builders reporting strong sales rose sharply in December to 77%.


CURRENT TRAFFIC
(all new homes in percent)

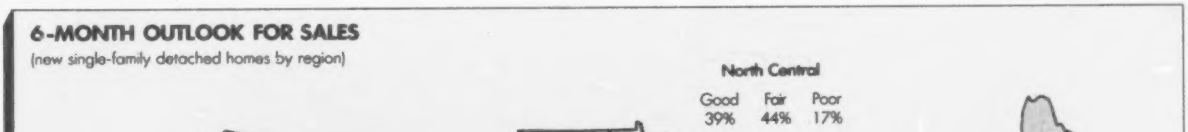
Source: NAHB Economics Division

Traffic has picked up substantially for most builders. That reverses a downward trend that began in the middle of last year.


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division

Optimism is mounting. Nine of 10 builders expect sales to be fair to excellent during the next six months. A month ago only 7 in 10 did.


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes by region)
North Central
Good 39% Fair 44% Poor 17%
Northeast
Good 44% Fair 50% Poor 6%
West*
Good 38% Fair 50% Poor 12%
*Includes Alaska, Hawaii and Puerto Rico
South
Good 39% Fair 53% Poor 8%
Source: NAHB Economics Division

Sales expectations are high in every part of the country, even in the long-depressed North Central region.

OUTLOOK

NOTES

MORTGAGE REVENUE BONDS BURGEON

Securities Data Company, Inc., a New York-based research firm, reports that $11.4 billion worth of single-family mortgage revenue bonds were issued last year. That was nearly 43% more than the $8 billion issued in 1982. Some of the increase was due to a flurry of activity late in the year just before authority to issue the bonds ran out on December 31. The amount of multifamily mortgage revenue bonds issued in 1983 jumped 68% to $4.2 billion from $2.5 billion issued the year before. Single-family mortgage revenue bonds financed about 220,000 units last year, including roughly 90,000 new units, or nearly 15% of all single-family homes sold, according to NAHB.

LOAN LIMITS INCREASE

The size of home loans that can be purchased by Fannie Mae and Freddie Mac went up last month. Loan limits increased to $114,000 from $108,300 for single-family mortgages, to $145,800 from $138,500 for two-family units, to $176,100 from $167,200 for three-family units, and to $218,900 from $207,900 for four-family units. There was no change in multifamily loan limits.

INVENTORY UNCHANGED

There were 313,000 new houses for sale at the end of November. That represented a 6-month supply, about the same as the month before.

REGIONAL SALES UNEVEN

The North Central region showed the only big gain in new single-family home sales in November; sales there jumped 30% to an annual rate of 87,000. Sales increased 2% in the West, stayed the same in the Northeast and fell 5.7% in the South.

RESALES STEADY

Sales of existing single-family houses increased slightly—less than 1%—in November to an annual rate of 2.63 million units, the National Association of Realtors reported. Existing home prices rose 0.7% in November to a median of $70,300. November prices were 3.8% higher than a year earlier.

CALIFORNIA RECOVERY SLOW

The California housing market will recover more slowly than the rest of the nation due to higher home prices, which remain 50% above the national average. This is the forecast of leading economists who met recently at the Real Estate Roundtable Meeting in Los Angeles. They predict starts in California will increase no more than 15% this year to 175,000 units at most.

NEAR-RECORD CONSTRUCTION VOLUME

New construction contracts totaled $15.4 billion in November, up 4% from October, bringing 1983 building activity close to the highest annual volumes on record, reported the F. W. Dodge Division of McGraw-Hill Information Systems. Although residential building far outdistanced other construction for most of the year, November's 4% gain was due to a 17% increase in commercial and industrial building contracts. The value of residential construction declined 1% because of a sag in single-family building. Nearly all of November's gain occurred in the Northeast where the value of construction contracts rose 14%.

S&Ls LEND $125 BILLION

S&Ls loaned a record $125 billion in home mortgages last year, according to the U.S. League of Savings Institutions. That compares with $54 billion in 1982 and the previous high of $108 billion loaned in 1978. S&Ls took in $1.7 billion in net new savings in November, reported the Federal Home Loan Bank Board. That was down from $3.4 billion the month before but in line with the normal seasonal dropoff. S&Ls have experienced savings inflows since December 1982 when deregulation permitted them to pay market rates for deposits.

TEXAS IS HOT

Dallas-Fort Worth will be the hottest housing market in the country this year for the second year in a row despite a substantial drop in starts there, predicted Chicago Title Insurance Co. Houston will run a close second, followed by Atlanta, Phoenix, Los Angeles and Denver. Nine of the top 10 states in new home construction will be located in the Sunbelt. The exception is Pennsylvania, number 10.

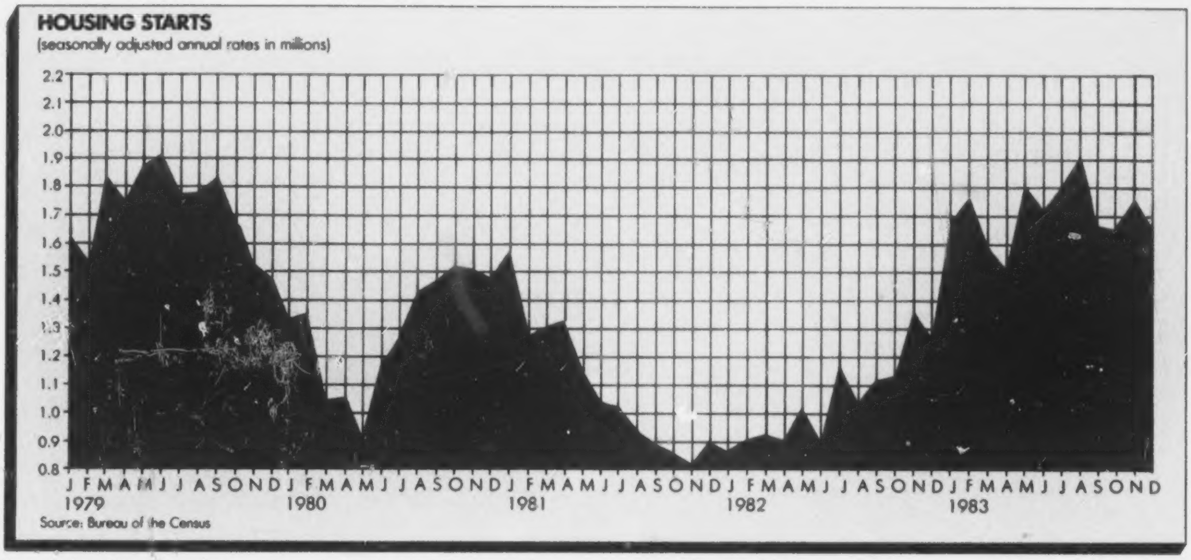
SYNDICATIONS THRIVE

The public real estate syndication industry has enjoyed dynamic growth over the last two years. Of the $12 billion in capital raised by syndications from 1970 through 1983, two-thirds was contributed in 1982 and 1983, according to Questor Information Services, San Francisco. Apartments continue to be the most popular type of real estate with syndicated partnerships (50%) followed by office buildings and shopping centers (18% each).

LOW-INCOME BUYERS FINANCED

The Federal National Mortgage Association has made $100 million available to home buyers through a network of predominantly black real estate brokers in 21 cities. The adjustable rate loans will finance about 2,000 homes for low-to-moderate income families largely in urban areas. The commitment to members of the National Association of Real Estate Brokers, known as "Realtists," marks the first time Fannie Mae has funneled a commitment through a real estate sales trade group.

OUTLOOK

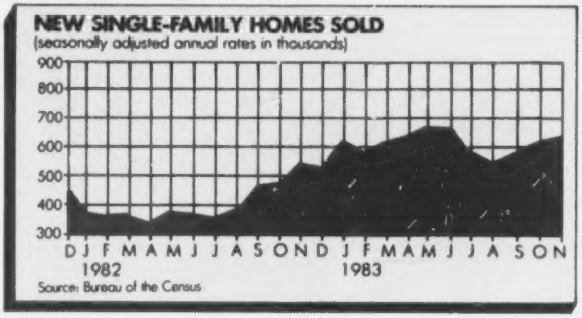


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

Starts decline 5% in December to an annual rate of 1.67 million. Single-family starts fell 11.4% to 972,000, but multifamily starts rose 5.6% to 695,000. Total starts were 30% higher than a year earlier.

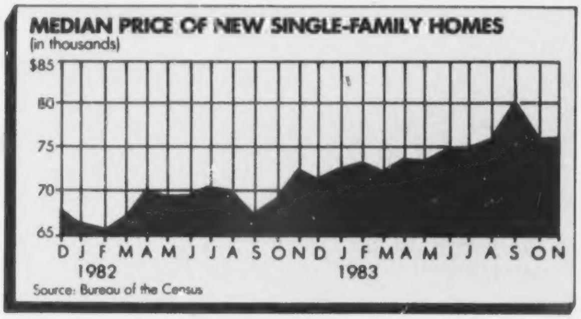


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

Sales remained about the same in November at an annual rate of 638,000 compared with the upwardly revised October rate of 635,000.

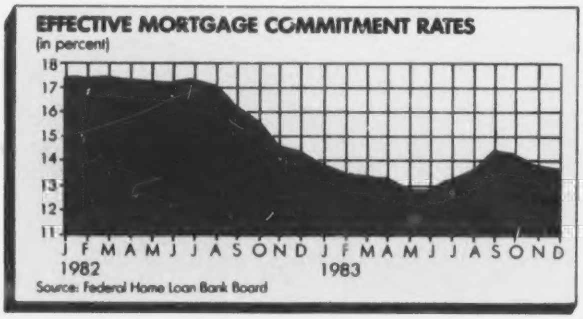


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median price increased a slight $200 in November to $75,900. The November price was only 3.3% higher than a year earlier.

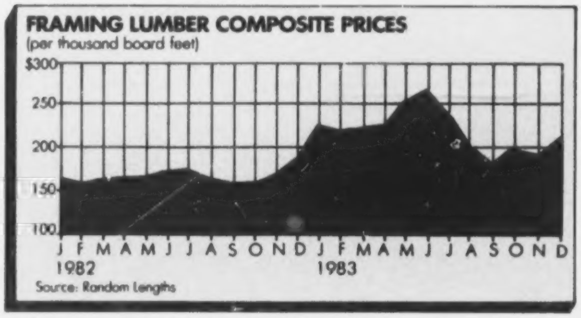


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

For the third straight month mortgage rates edged downward in December. Fixed rates declined 4 basis points to 13.88%; uncapped adjustable rates dipped 13 basis points to 12.38%.



FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices climbed 7.2% in December to $209 per thousand board feet. The December price was the highest since July and 9.4% higher than a year earlier.

BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
MARCH 1984

VOLUME 7, NUMBER 3 ■ MARCH 1984

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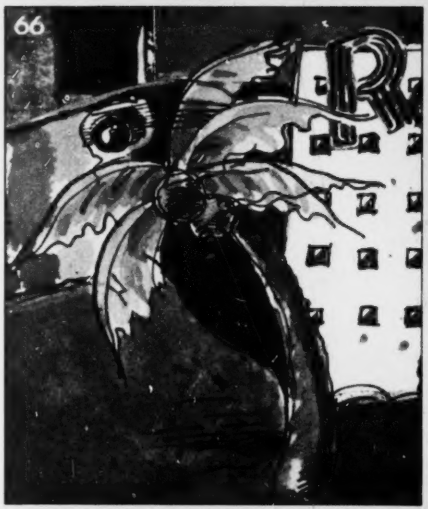

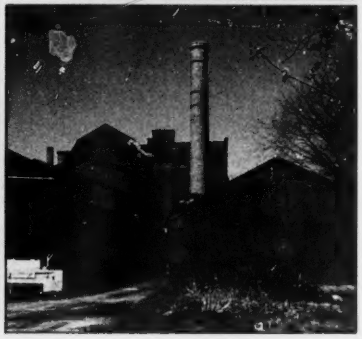

66—WHAT'S UP (and DOWN)

Everybody is optimistic about 1984. But even in the best of times some opportunities stand out. Nine marketing experts rate a builder's chance for success in 10 major market segments.

76—NICKLAUS WINS AGAIN

Recognized as the best golfer in history, Jack Nicklaus now is driven to become the premier developer of first-class golf course communities. Bet on him to succeed.

82—ON THE ROAD AGAIN

For years mobile homes were called trailers. That's no longer true, but the "tin cans on wheels" image has been hard to change. Manufacturers are trying, though, and some are moving toward the middle of the road by building more expensive homes for first-time home buyers.

90—GROUND BREAKERS

Hats off to a Connecticut builder who took the time to understand the investment tax credit for renovating historic properties. Using the credit he converted a derelict 100-year-old hat felting factory to 41 luxury rental apartments.

(Cover: Danbury Mill. Photo: Copyright Jerry LeBlond 1983)

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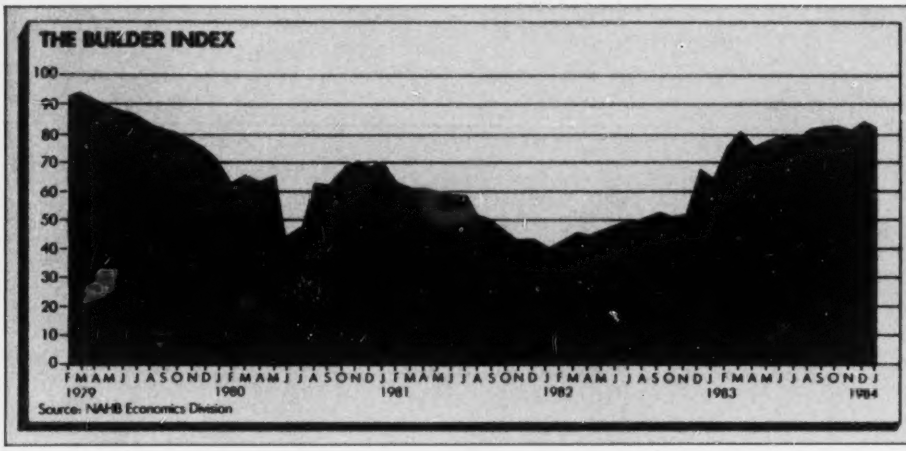
OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

The BUILDER Index declined by 1.59 points in January but still was more than 17 points higher than a year ago.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

The BUILDER Index

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

It's almost impossible to keep track of all the economic statistics that can be used to assess the state of the housing industry. There are interest rates, new home sales, building permits, materials prices, housing prices and, of course, housing starts. In addition there are forecasts from the government as well as private firms. Different statistics are issued at different times—always it seems too late to make a difference and then subject to revision—and forecasts seem to change daily.

Wouldn't it be nice to have a single timely, reliable statistic to measure housing activity? Yes, it would, which is why NAHB's Economics Division has developed, exclusively for BUILDER, the BUILDER Index. Beginning in this issue of the magazine the index will appear each month in the "Outlook" section.

What any index does is measure change in wages or employment, for example, from an arbitrary standard representing the status at an earlier time. (The Consumer Price Index—CPI—that measures changes in prices against a standard of the late 1960s is probably the best-known index.)

The BUILDER Index was designed to measure changes in future housing activity. In other words it will indicate whether housing activity will be up or down during the next six months. Just as the CPI doesn't indicate exactly what a certain product will cost but instead that products in general will cost more or less, the BUILDER Index shouldn't be used to project housing starts. Instead it should be used to determine whether housing activity will increase or decrease, over the short term, from current levels.

The higher the index number, the better for housing. In January the index stood at 82.45, or at about the same level it's held since last summer. A reading that high suggests relatively strong future housing activity. (The BUILDER Index is based with July 1978 equaling 100. At that time the index correctly forecast a climb in housing starts to a peak of about 1.9 million units in the summer of 1979. Moving as it should, about six months ahead of housing starts, the index started to decline in early 1979, continued to decline through mid-1980, increased for a short period, declined again through the spring of 1982—reaching a low point of 40.92 in January 1982—then increased again before leveling off last summer.)

The index was developed with the assistance of the Bureau of Economic Analysis in the Department of Commerce, the record-keeper for the federal government. It represents a composite of seven important housing indicators:

- building permits;
- Government National Mortgage Association (Ginnie Mae) yields;
- lumber and plywood prices;
- the Producer Price Index for construction materials;
- builders' expectations for new home sales;
- buyer traffic through housing subdivisions; and
- the confidence index of home buying.

All these indicators were seasonally adjusted and tested for correlation with housing starts. Standard statistical procedures were used to select, analyze and weight the indicators.

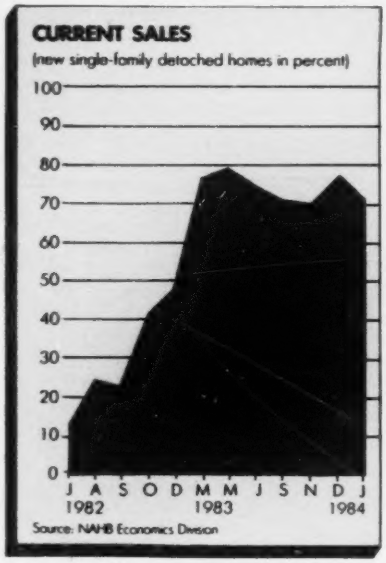
As with any new index this one will have to be fine-tuned over the next several months. But already the BUILDER Index agrees with our own surveys of builders' expectations as well as with our housing starts forecasts.

The surveys show builders think sales will remain strong but will not increase dramatically during the next six months. Our forecast calls for starts to exceed last year's 1.699 million units by about 100,000 units; starts should peak in the second quarter of this year, which is in line with the index.

see page 15

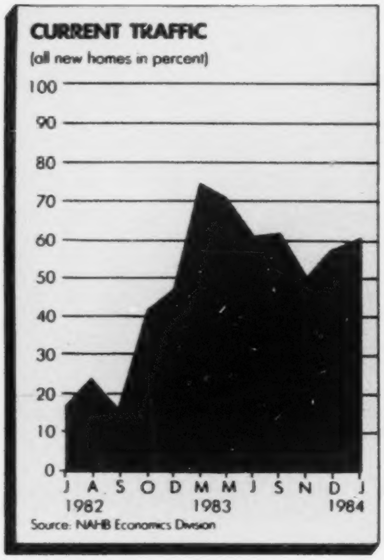
OUTLOOK

PERFORMANCE POLL: a periodic survey of builders


CURRENT SALES
(new single-family detached homes in percent)

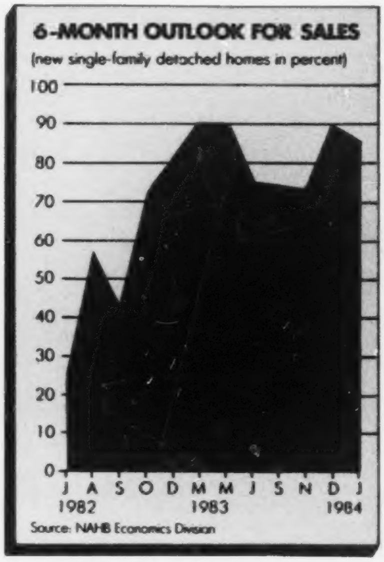
Source: NAHB Economics Division

Sales activity dropped a bit, but for 7 of every 10 builders sales remained strong.


CURRENT TRAFFIC
(all new homes in percent)

Source: NAHB Economics Division

For the third month in a row home buyer traffic improved; some 60% of builders reported model home traffic was strong.


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division

The percentage of builders expecting strong sales declined slightly, but at 85% it's clear that optimism still is widespread.

6-MONTH OUTLOOK FOR SALES
(new single-family detached homes by region)
North Central
Good Fair Poor
21% 55% 24%
Northeast
Good Fair Poor
42% 50% 8%
West*
Good Fair Poor
40% 43% 17%
South
Good Fair Poor
57% 31% 12%
*Includes Alaska, Hawaii and Puerto Rico

Source: NAHB Economics Division

Builders in the Northeast have the most positive 6-month outlook, followed closely by those in the South.

OUTLOOK

NOTES

SEARS MOVES INTO MORTGAGES

Sears Mortgage Securities Corp., a subsidiary of Sears, Roebuck and Co., began issuing commitments in January to buy 15-year and 30-year, fixed-rate mortgages. Individual loans can be up to $500,000. Sears Mortgage was formed last fall from parts of PMI Mortgage Corp. Also owned by Sears, PMI bought mortgages and packaged them into securities—but not on a daily basis as the new firm does. Charles Reed, president of Sears Mortgage, couldn't say when his firm would issue its first securities, but added that they will be marketed through Dean Witter Financial Group, another Sears company.

RESALES IMPROVE

Resales improved substantially last year but not nearly as much as new home sales did. Existing single-family sales climbed 37% to 2.72 million, reported the National Association of Realtors, compared with a 52% spurt in new single-family sales to 625,000. December resales rose 8.5% from the previous month to an annual rate of 2.82 million.

BONDS FOR SMALLER BUILDERS

HOMAC (Home Mortgage Access Corp.) sold its first issue of builder bonds in mid-January. The $18 million issue is collateralized by Ginnie Mae securities. Seven builders participated in the AAA-rated bond issue which was sold through two HOMAC subsidiaries, HOMAC Government Financial and HOMAC Government Financial West. "This represents a major step for small and medium-sized builders," said Robert Larson, HOMAC president. "Now those companies can have access to this advantageous financing technique which many bigger firms have been using."

STRONG DECEMBER TRACED TO ARMs

December usually is a slow month for mortgage lending, but December 1983 saw mortgage lending at savings institutions soar to $14.3 billion —a record for the month, reported the U.S. League of Savings Institutions. The year-end pace pushed total 1983 mortgage lending at FSLIC-insured institutions to a record $137 billion, far above the preliminary estimate of $125 billion. The previous record was $108 billion in 1978. The U.S. League attributed strong December lending to the increased use of adjustable rate mortgages and to robust housing activity in the Sunbelt. In fact, an astounding 65% of the mortgages made by savings institutions during the fourth quarter of 1983 were ARMs. The average ARM rate was 11.75% versus 13.49% for fixed-rate loans, or an average differential of 1.74 percentage points.

continued from page 13

The forecast further predicts starts will increase in the Northeast and North Central regions and will decrease in the South and West. In spite of the forecasted starts decline, the South, with 868,000 projected starts, will be the biggest market, followed by the West (357,000 units), the North Central region (273,000 units) and the Northeast (201,000 units).

Our builder surveys indicate that sales are strongest for units priced less than $100,000. For further proof that the entry-level market is where the action is, consider data collected by the Home Owners Warranty Corporation (HOW), a firm that insures new home buyers against major defects in their new houses. HOW records indicate that 47 percent of the single-family houses sold last year with HOW insurance were bought by first-time buyers.

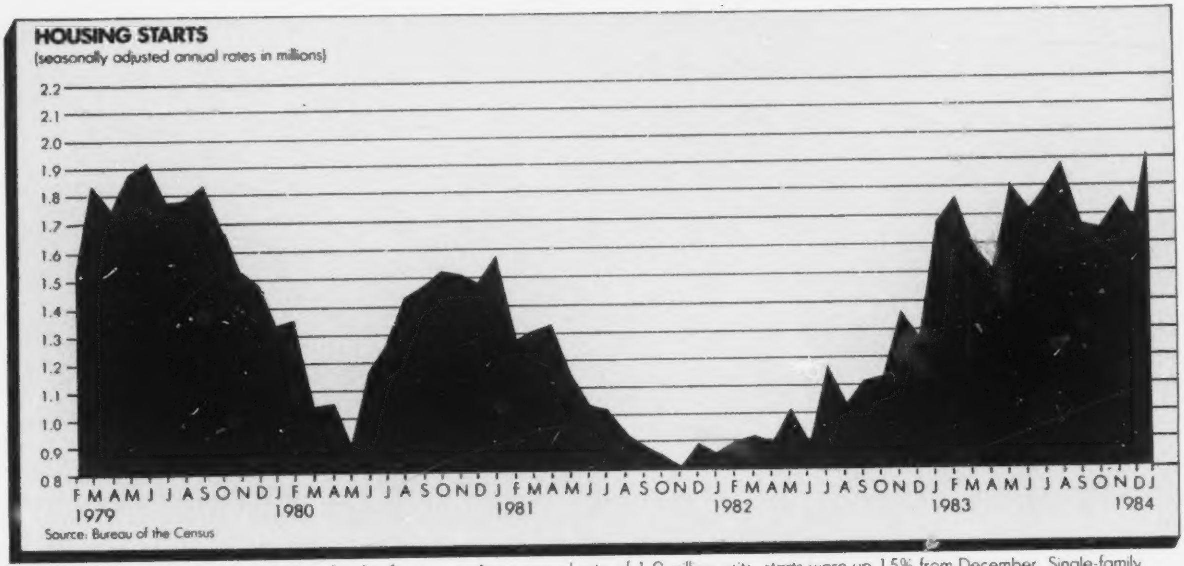
Statistics like those from HOW are revealing and important. The BUILDER Index won't and can't replace them, but it will be a useful tool for anyone trying to figure out which way housing is headed.

COMPONENTS OF THE BUILDER INDEX

Component	Source	How often collected	How measured
Building permits New private housing units authorized by 16,000 local building permits	Bureau of the Census	Monthly	Number of housing units
Ginnie Mae yield Based on mortgage auctions; 30, 60 and 90-day delivery	Government National Mortgage Association	Weekly	Interest rate
Lumber prices Composite of framing lumber and plywood	Random lengths	Weekly	Index (1967=100)
Producer Price Index Prices of 21 building materials	Bureau of Labor Statistics	Monthly	index (1967=100)
Sales expectations Builders' rating of sales of new homes for present time and for next six months	NAHB Economics Division survey	Monthly	Percent distribution
Subdivision traffic Based on builders' rating of number of prospective buyers looking at new homes in subdivisions	NAHB Economics Division survey	Monthly	Percent distribution
Confidence index Percent of households that plan to buy new homes within six months	Conference Board survey	Monthly	Percent

Source: NAHB Economics Division

OUTLOOK

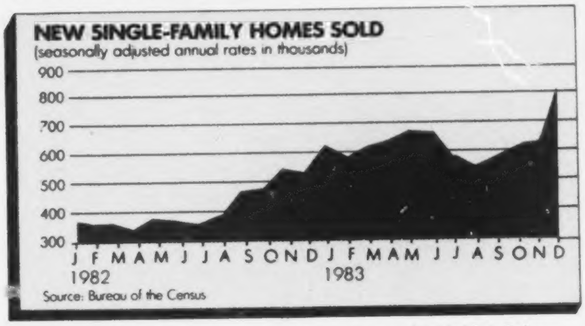


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

Starts jumped in January to their highest level in five years. At an annual rate of 1.9 million units, starts were up 15% from December. Single-family starts accounted for most of the increase; they surged 23% to 1.24 million.

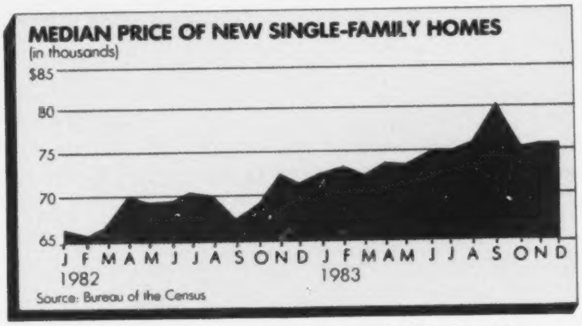


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

Sales jumped 28% in December to an annual rate of 808,000. Sales were up 53% from December 1982. Strong activity in the South sparked the rise.

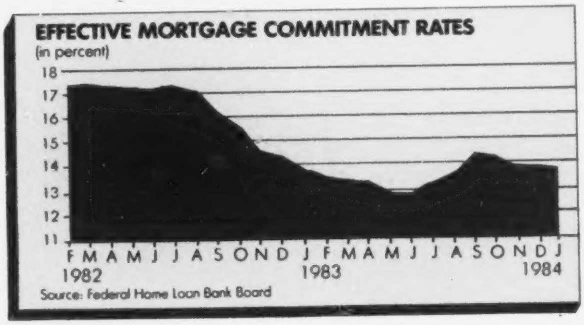


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median sales price of new houses rose only $100 in December to $75,900. But that's nearly 6% higher than a year earlier.

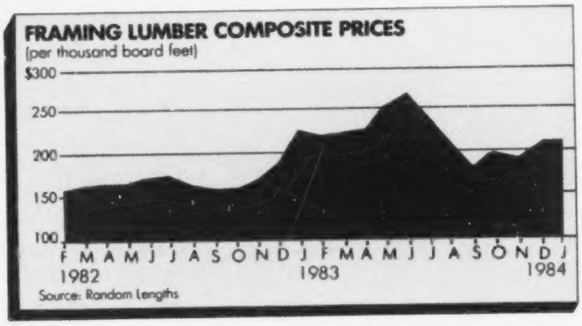


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

Mortgage rates receded only slightly in January. Long-term, fixed rates slipped 4 basis points to 13.84%; uncapped adjustable rates dipped 3 basis points to 12.35%.



FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices rose 2% in January to $213 per thousand board feet. The price was down 7% from a year earlier.

RATES

continued from page 46

ment rate goes down too.

Conversion fees will vary depending on interest rates and commitment term.

Commitments can be purchased on a house-by-house basis, compared with Fannie Mae's minimum $1 million commitment amount, and individual mortgages can be as high as $500,000.

HOMAC's commitment can be used to finance 15 and 30-year, fixed-rate mortgages, graduated payment mortgages, and short and long-term buy-downs. ARMs are expected to be added later. The program will be offered initially in Florida and parts of California, Arizona, Colorado, Georgia and Texas. Other areas will be added as lenders are approved.

Residential Funding Corp. also offers a new commitment with interest rate protection. With the optional delivery three, six or nine-month commitments, builders can cap their interest rate risk at 50, 100 or 150 basis points over the delivery commitment rate quoted when the commitment is ordered.

Loans are converted at the capped rate or the rate at the time of conversion, whichever is less. The commitment can be used to finance a variety of mortgage types and individual loans of as much as $500,000.

Fees vary with the length of the commitment and the amount of rate protection. In late January, for example, the least expensive commitment fee was ½ percent for a three-month commitment with a 150-basis-point rate cap. The most expensive fee was 2½ percent for a nine-month commitment with a 50-basis-point rate cap.

Carol Anderson

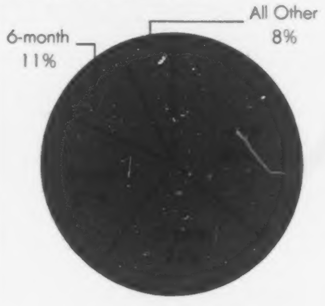
FINANCE

ARMs MAKE GAINS

Adjustable rate mortgages have come a long way in the last three years, but they still have a way to go, according to a recent survey by the Federal Home Loan Mortgage Corporation (Freddie Mac).

More buyers are taking ARMs because lenders have started pricing them competitively with fixed-rate loans, often offering substantial initial rate discounts.

USE OF ADJUSTABLE RATE MORTGAGES—1983



Source: Federal Home Loan Mortgage Corporation

However, the profusion of ARM instruments and prices still confuses home buyers. And lenders worry that many buyers don't understand ARMs and that those who take discounted ARMs may suffer when the first adjustment period rolls around.

According to the nationwide study conducted last fall, 82 percent of the 750 lenders surveyed offered ARMs. What's more, ARMs accounted for 44 percent of all mortgage originations made by those lenders during the first half of last year.

"That's up from nearly zero three years ago," said Kent Colton, executive vice president of the mortgage corporation. "While ARMs may never replace traditional fixed-rate loans," Colton said, "It's abundantly clear that they have achieved widespread acceptance in the marketplace."

Survey respondents attributed the surge in ARM business to favorable pricing—a healthy spread between ARM rates and fixed rates and to discounted initial ARM rates. The assumability of most ARMs (66 percent) as well as the availability of rate and payment caps also have made the loans more palatable to buyers.

Some survey results:

- ARM programs were rated successful by 54 percent of the lenders; another 36 percent said they were somewhat successful.
- The one-year ARM was the most widely used, followed by the five-year and three-year ARMs (see chart).
- The most common index was Treasury rates.
- Some 24 percent of the lenders (30 percent of lenders with successful ARM programs) offered initial ARM rate discounts. In fact, initial rates varied from 9.25 percent to 13.75 percent, or 4.5 points, for uncapped one-year ARMs tied to the Treasury index.
- The spread between initial ARM rates and fixed-rate mortgages averaged 2 to 3 points for one-year Treasury-indexed ARMs. The spread was narrower for longer ARMs, ranging from 0.6 to 1 percentage point for five-year, Treasury-indexed ARMs.
- Surprisingly, capped ARMs were priced lower than uncapped ARMs.
- A majority of ARM lenders offer either a rate or payment cap.
- Least likely to offer ARMs are commercial banks, small S&Ls and lenders in the Northeast, but the percentage among these groups still is quite high (66 percent).
- ARMs vary considerably by region. Rate caps are most likely to be offered in the West, least likely in the Southeast. And lenders in the West and Northeast are most likely to offer initial rate discounts.
- Most ARM buyers are younger, first-time home buyers or older, highly educated, affluent buyers who can afford the risk.

While encouraging, the survey results indicate a need for greater standardization among ARM products and more education for buyers, Realtors, builders and lenders, Colton concluded.

ECONOMY

HOUSING REBOUNDED IN 1983, FIGURES SHOW

Now that the numbers are in, there's no doubt about it: 1983 was a very good year for housing, the best since 1979.

Preliminary figures show there were 1.7 million housing starts last year, up 60 percent from disastrous 1982, and close to the 1.75 million units started in 1979.

see HOUSING page 56

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THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
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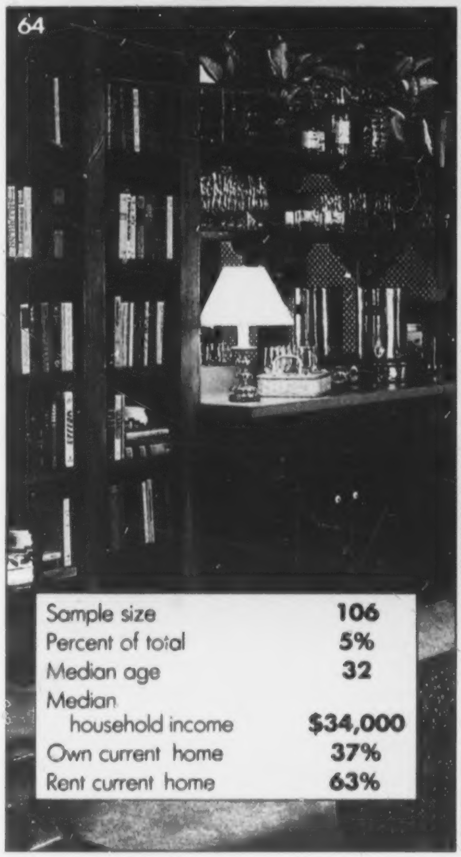
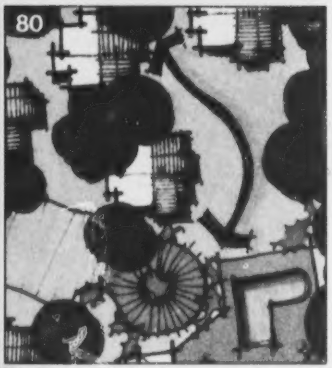


Sample size	106
Percent of total	5%
Median age	32
Median household income	$34,000
Own current home	37%
Rent current home	63%

80



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64—WHAT BUYERS WANT
One thing is clear: They don't all want the same thing. That's a major finding of BUILDER's second annual survey of prospective new home buyers.

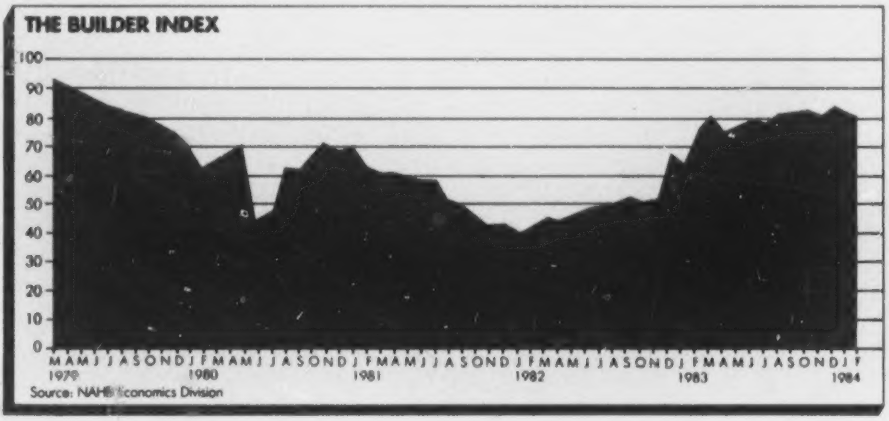
80—DESIGN WORKSHOP: SITE PLANNING
The first installment in a new series on housing design deals with the "dos" and "don'ts" of site planning. Prepared with BUILDER's contributing design editor, William Devereaux, AIA, Berkus Group Architects.

88—PROJECT OF THE MONTH
Much of Florida is subtropical, but little of the housing there has a tropical feeling. Plantation Colony, a 120-unit resort development by Arvida Corporation, does, and buyers have warmed right up to its deep roof overhangs, high wooden ceilings, paddle fans and screened porches.

(Cover: Plantation Colony. Photo: Paul G. Beswick)

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION


THE BUILDER INDEX

Source: NAHB Economics Division

The BUILDER Index declined a moderate 1.56 points in February, showing that the housing industry is holding strong.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Prospects for Recovery

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

The Reagan Administration's projection for economic growth, as spelled out in the President's budget, is far too optimistic. The projection assumes a stable economy during the next five years, even as signs appear that the great upturn cannot continue as robustly as it has during the last year.

To sustain economic growth over the next several years, we'll need much tighter fiscal policies, rapidly declining deficits and considerably easier monetary policies, not to mention much lower interest rates. The Administration does assume interest rates will decline, with Treasury bill rates dropping to 8.6 percent this year, 7.9 percent next year and ratcheting all the way down to 5.1 percent by 1989.

Of course, such a drop is possible if inflation is checked and deficits decline. But here the logic smacks of a vicious circle. Certainly the proposed $100 billion deficit down payment over the next three years will, if it occurs, reduce the deficit, but real progress depends on greater economic activity generating greater revenue for the government. In other words, reducing the deficit depends on sustaining the recovery. But the deficit threatens the recovery. If it aborts the recovery, the projected $152 billion deficit in 1988 could be twice that much.

To repeat, the character of the recovery already is changing. It began with the resurgence of residential construction and the durable goods sector, then spread to producers' durable equipment. The government remained virtually neutral, though it did cut nondefense spending and increase defense expenditures.

One major area of concern has been the lack of investment in industrial construction. Last year these expenditures actually dropped 24 percent, and there still is little prospect of a major upturn in industrial construction in the next couple of years. Yet it's needed in order to provide new jobs and continue the economic recovery.

Another concern is the impact of government borrowing on the capital markets. Mortgages will require about 25 percent of all available funds this year to sustain a moderate increase in starts to, say, 1.75 million units. Consumers will need about 8 to 10 percent of the available funds, corporate and foreign bond markets will need about 6 to 8 percent and other bank loans will consume 10 percent of available credit. In total that's about half of all available credit.

But if, as expected, the federal government needs half and state and local governments need another 10 percent, something will have to give. That, in fact, is the dilemma of the ever-increasing federal deficits.

Deficits not only preclude a fair distribution of loanable funds, they directly affect the ability of the Federal Reserve Board to provide more funds for the private economy. High interest rates result, and they impede economic growth here and overseas.

In order to solve the Third World debt problem we need continual and rapid economic recoveries not only among the industrialized nations but also a strong recovery among Third World nations. They are haunted by enormous interest payments and that leaves little for investment into productive capacity to expand.

When I visited central banks in West Germany and Switzerland in February, the Europeans said "the world needs lower interest rates." For that to happen the federal deficit will have to drop and monetary policies will have to be more expansionary.

This point was substantiated by a February survey of the Monetary Policy Forum (MPF), a group of business and financial leaders that monitors the monetary policies of the Federal Reserve

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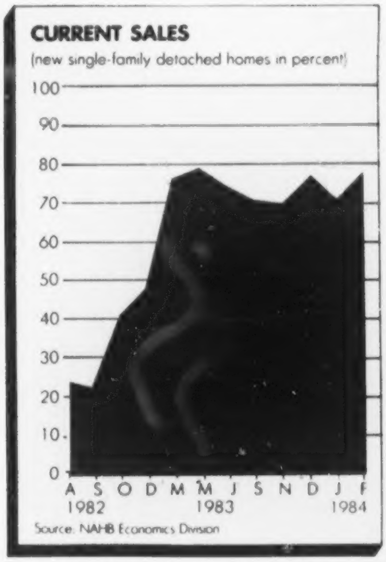
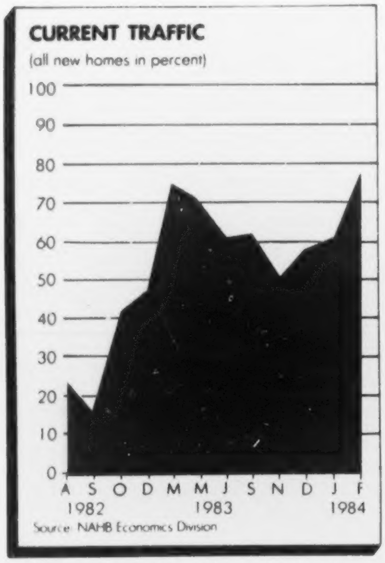
OUTLOOK/BUILDER POLL



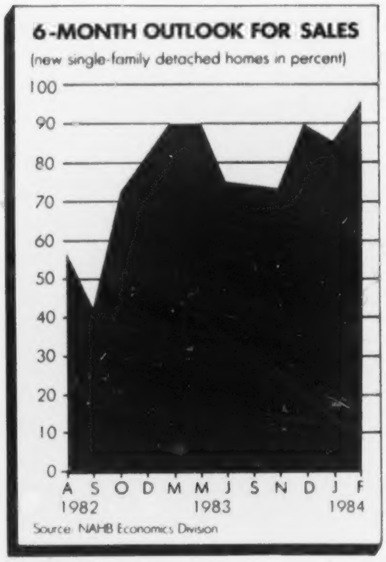
Source: NAHB Economics Division

Sales activity has improved substantially, moving toward last spring's peak when eight of 10 builders reported strong sales.



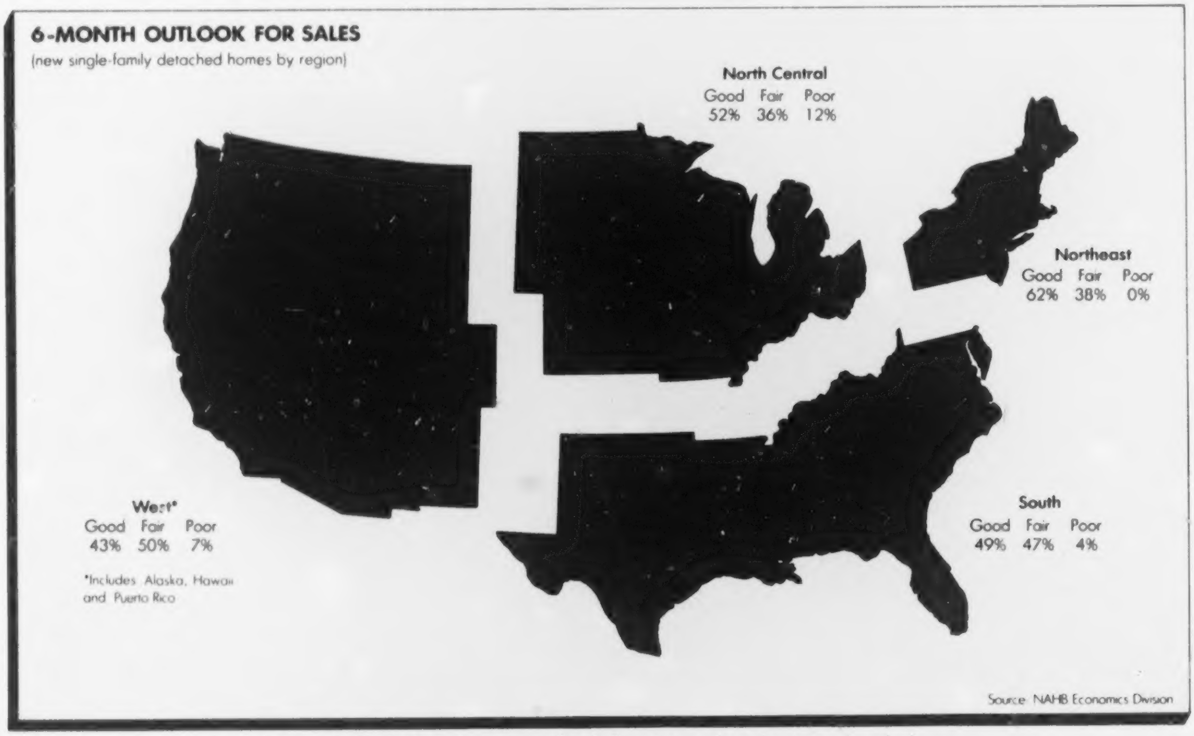
Source: NAHB Economics Division

Traffic through new homes has picked up dramatically; about eight of 10 builders reported traffic was strong in February.



Source: NAHB Economics Division

After dipping slightly, sales expectations shot up in February to the highest levels since the late 1970s.


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes by region)
North Central
Good Fair Poor
52% 36% 12%
Northeast
Good Fair Poor
62% 38% 0%
West*
Good Fair Poor
43% 50% 7%
*Includes Alaska, Hawaii and Puerto Rico
South
Good Fair Poor
49% 47% 4%

Source: NAHB Economics Division

For the first time in a long time builders in the North Central region are decidedly optimistic about the six-month outlook.

OUTLOOK/NOTES

ARMs AND CMOs AT FREDDIE MAC

Freddie Mac is now buying assumable 1, 3 and 5-year ARMs. The ARMs include an optional cap on payment increases of 7.5% a year and a 125% ceiling on negative amortization. In other Freddie Mac news, the agency recently issued its third collaterized mortgage obligation (CMO) for $525 million. The CMO, backed by below-market rate loans bought from lenders, included four maturity classes. Since last June, Freddie Mac has issued a total of $2.2 billion in CMOs.

CITICORP COLLECTS S&Ls

Citicorp has gotten the go-ahead to acquire First Federal S&L of Chicago and New Biscayne Federal S&L of Miami. The financial giant also bought a troubled Oakland, Calif., S&L in August 1982. The Federal Reserve Board okayed the latest acquisitions but imposed strict restrictions on what Citicorp can do with its new possessions.

THE SOUTH COOLS OFF

The South just couldn't keep it up. Single-family sales in January declined 17% in the region to an annual rate of 364,000 after surging a stunning 37% in December. January sales declined 1% in the Northeast to 74,000 but climbed 6% in the West to 183,000 and 6.5% in the North Central to 66,000.

BOND SOLD TO BUILDERS

The first multi-builder bond to be backed by conventional mortgages has been sold by a consortium of home builders called American Southwest Finance Company. Sold in February, the $76.5 million bond carried a AAA rating. It was structured as a CMO (collateralized mortgage obligation) with four maturities from 6.5 to 30 years and yields ranging from 10.96% to 12.95%. Most of the mortgages were originated in Texas and Florida within the last year, said James Marshall of Kenneth Leventhal & Company, which helps American Southwest assemble bonds.

OUT OF THE RED

Fannie Mae reported 1983 earnings of $75.5 million compared with losses of $105 million in 1982 and $190 million in 1981. And Freddie Mac announced record earnings of $160 million for last year. The company's previous record high was $60 million in 1982.

RESALES AT 3-YEAR HIGH

Resales of single-family homes rose 5% in January to an annual rate of 2.99 million units—the highest level in three years—reported the National Association of Realtors. Sales were up in every region but the West. The median price of resales jumped 3% to $71,900.

NEW SAVINGS UP AT S&Ls

Savings institutions raked in $62 billion in net new savings last year, reported the U.S. League of Savings Institutions. That compares with a $7 billion outflow in 1982.

U.S. MORTGAGE DEBT TRIPLES

The nation's residential mortgage debt more than tripled from $303 billion in 1971 to $967 billion in 1981, the Census Bureau reported recently. Three out of five single-family houses were mortgaged in both years, but the average mortgage debt rose from $11,300 to $27,000. The proportion of first mortgages on single-family houses that were insured by the FHA dropped from 21% to 15% during the period; the proportion guaranteed by the VA remained at 14%.

LENDING MAKES NEW RECORD

Mortgage lending at savings institutions totaled $11.8 billion in January—a record for the month—but that was down 21% from December's record volume, reported the U.S. League of Savings Institutions. Adjustable rate mortgages (ARMs) accounted for a whopping 75% of the January volume, up from 66% in the fourth quarter of 1983. The league credited "increasing consumer acceptance of ARMs" for the continued strength of the mortgage market.

CONTINUED FROM PAGE 11

Board. The majority of the MPF members believe that the Fed's main policy objective this year should be to achieve sustained, noninflationary economic growth.

This means that the Fed's policies should accommodate recovery, not increase interest rates, and should be aimed at lowering interest rates by encouraging greater fiscal discipline.

Two-thirds of the MPF respondents also said that the Fed shouldn't be so concerned about hitting its money targets this year; in other words, achieving stable money growth this year is less important than sustaining the recovery or keeping interest rates from rising.

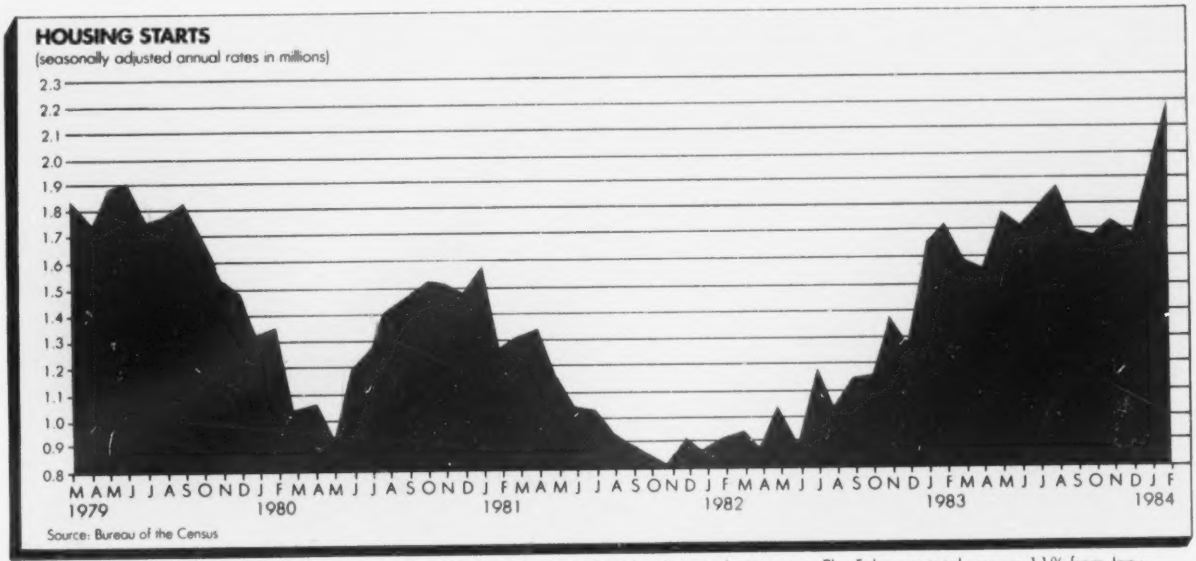
The Fed's top concerns, according to MPF members, should be, in order: real GNP; GNP deflator; interest rates; the value of the dollar; the international debt situation; M2 growth; domestic credit; and M1.

European bankers and builders I talked to agreed. They remain concerned about high interest rates in the United States. Many European economies are starting to recover, but unemployment in many countries is getting worse instead of better.

There's concern about the run-up of interest rates in the United States as a result of the large deficits. The Monetary Policy Forum members also are concerned about the potential of a recession. When they were asked how high the rate for 30-year Treasury bonds can go this year before causing a recession the average response was 13.9 percent (with a low of 11.9 percent).

In Europe there is much greater cooperation between central banks, business communities and government. As a result, there is little of the public ridicule the Fed is exposed to. And, as Fritz Leutwiler, president of the Swiss National Bank, told me: "Our M1 is buried on the last page of our monthly report and nobody really pays much attention to it." ⌂

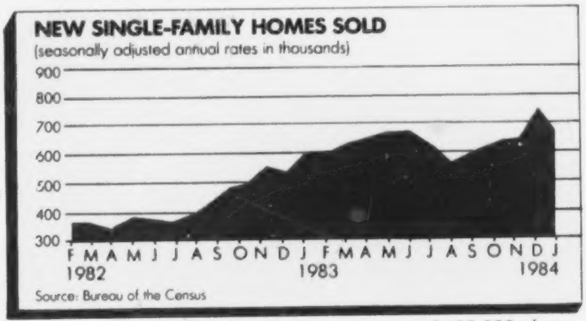
OUTLOOK/STATISTICS



HOUSING STARTS
(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

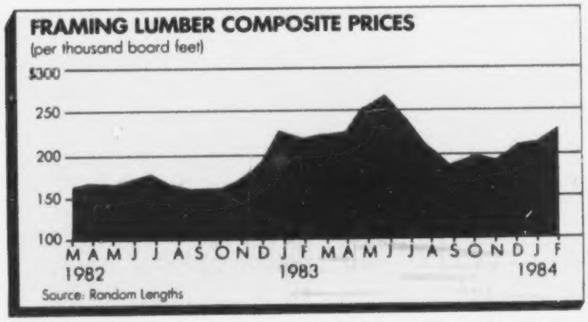
Starts surged in February to an astounding annual rate of 2.2 million, the highest level in nearly six years. The February total was up 11% from January. Multifamily starts jumped 25% in February to 837,000; single-family starts rose 4% to 1.36 million after climbing 28% in January.



NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

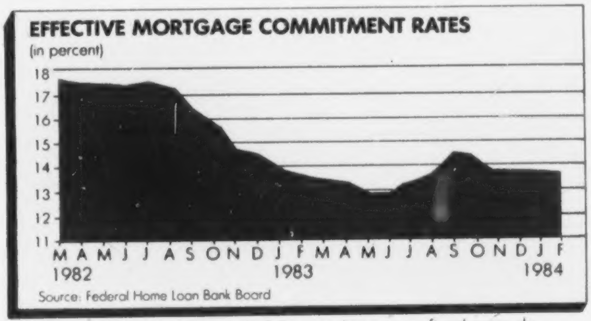
Sales dropped back 8% in January to an annual rate of 688,000 after rising 17% in December to a downwardly revised rate of 748,000.



FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

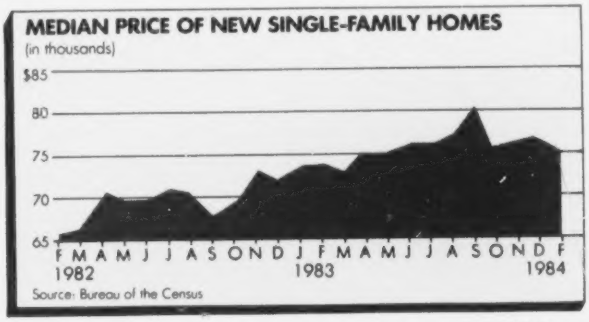
Lumber prices jumped 7.5% in February to $229 per thousand board feet. That was only 2.7% higher than the price a year earlier.



EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

Source: Federal Home Loan Bank Board

Mortgage rates slipped again in February. Long-term, fixed rates declined 14 basis points to 13.71% while uncapped adjustable rates receded 9 basis points to 12.24%.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median price dropped $1,200 or 1.6% in January to $75,300 from a revised December price of $76,500. The January price was 2.4% higher than a year earlier.

MARKETS

DEMAND SURGES FOR DETACHED HOUSES

More evidence that the detached house is far from becoming obsolete: Demand for detached housing surged last year in response to lower mortgage rates.

The proportion of buyers who purchased single-family detached houses jumped from 76.6 percent of all buyers in 1982 to 87.8 percent last year, reversing an eight-year trend, according to a survey by Chicago Title Insurance Company.

The most dramatic shift was among first-time buyers. Although they accounted for 40.5 percent of the market—the same as in 1982—the proportion who purchased detached houses swelled from 67 percent in 1982 to 92 percent last year.

"There was an interesting flip-flop as repeat buyers purchased condominiums more frequently than first-time buyers," noted John Pfister, vice president and manager of market research for Chicago Title.

WHAT'S SELLING
(in percentage of buyers)

	1982	1983
Single-family detached houses	76.6%	87.8%
Condominiums	16.9	7.6
Multifamily units	6.5	4.6

Source: Chicago Title Insurance Co., copyright 1983

Largely as a result of the shift to detached housing, the median price of a home purchased in 1983 increased 9.2 percent to $90,000. The increase was much greater, however, for first-time buyers: For them, the median price jumped 24.1 percent to $73,100. By contrast, the median home price for repeat buyers was up only 3.5 percent to $101,800.

In addition to lower interest rates, rising incomes also spurred more first-time buyers to purchase detached homes, according to the survey. Median household income for those buyers rose 17.2 percent to $33,090, largely because of a substantial increase in the proportion of two-income families buying homes for the first time.

Even though the average monthly mortgage payment for the first-time buyers climbed 10.6 percent to $697, it declined as a percentage of family income to 33.4 percent from 35.5 percent.

For repeat buyers, the average monthly mortgage payment increased 7.3 percent to $866.

MANAGEMENT

EMPLOYEE TESTING GRADES OUT FOR SOME BUILDERS

In making personnel decisions, most builders probably still use the standard approach of reviewing resumes and conducting interviews. Some companies, however, are supplementing these customary techniques with standardized aptitude and personality tests.

"It's part of the selection process we have," explained Sheryl Dupas, director of personnel for Nash Phillips/Copus, a major Texas builder. As is true of most firms that use such testing, NPC administers tests only after first going through normal screening procedures.

For the past five years, the Ramos/Jensen Company, San Marcos, Calif., has been using a test designed by a Los Angeles firm, Aptitude Testing for Industry (ATI). The all-day battery measures mental abilities, personal interests, temperament, motivation and knowledge of sales and supervision.

"It's not the only device we use to make hiring decisions," said Ramos/Jensen president Ronald Ramos, "but it is an excellent predictor of success."

Ramos/Jensen has found this evaluation tool particularly useful in selecting project managers. The company currently has 900 houses under development at seven sites in California and one in Arizona. All eight project managers came from outside the housing industry, with backgrounds ranging from law to secretarial work.

Despite their diverse credentials, all the new employees have done extremely well in the firm's sink-or-swim environment, Ramos/Jensen officials reported. In a field traditionally dominated by males, four of the supervisors are women, selected in part because the tests showed they had the ability to handle a number of tasks simultaneously and stay calm.

Other builders use less elaborate tests than Ramos/Jensen does. Coleman Construction Inc., of Bakersfield, Calif., uses the DISC Profile, an evaluation device provided by Fails Management Institute, a national management consulting firm.

"It plots basic personality characteristics to determine how an applicant will fit into the organization," said Bob Jackson, Coleman's vice president for operations. The 10-year-old firm, which had single-family home sales of over $25 million last year, has used the assessment tool with both current employees and new applicants.

The DISC Profile consists of 24 sets of four words each. From each group, a person marks the word that is most descriptive of his or her personality and the one that is least descriptive.

Speaking of a similar test his company has used for more than 20 years, the president of an Arizona construction firm explained, "Nobody has a 'perfect' behavioral pattern. It's a tool, not a test you either pass or fail."

When working with Ramos/Jensen or any of its other 500 clients, ATI correlates each applicant's test performance with standards the company has developed for employees in the same type of position. "Most tests are not published with occupational norms," said Dr. Samuel F. Vilgiate, vice president of ATI. "We have developed norms for construction management and many other jobs to determine which skills are most important for a position and which tests seem to identify those skills."

After ATI scores a test, the company prepares a report with a recommendation on whether or not to hire or promote a candidate. That type of screening can help both a builder and a job applicant. As Ramos pointed out, "There is no such thing as 'good intuition' about hiring a person based just on resumes and interviews. As far as capacities are concerned, tests are much more objective."

Bill Black, a Washington, D.C.-based writer specializing in real estate

WHAT BUY

A 1984 SURVEY OF PROSPECTIVE NEW HOME BUYERS

GEORGE A. FULTON, GEORGE A. FULTON RESEARCH & CONSULTING, **FRANK ANTON**, EDITOR and **WENDY JORDAN**, EXECUTIVE EDITOR

Most builders used to think they knew—almost instinctively—what their buyers wanted. Some still do, and no doubt a few of them still are building and selling houses successfully based on seat-of-the-pants decisions.

However, a growing number of builders are relying on market research. Why? Because there no longer is any such thing as the typical new home buyer. Instead there are distinct groups of buyers and no one house, no matter how good, can appeal to all of them.

That's why, in analyzing responses to BUILDER's second annual survey of prospective new home buyers, it was decided to use the survey results to analyze in detail what buyers in three key market segments wanted. The market segments are first-time buyers, moderate-income move-up buyers and empty-nesters. Those buying groups were selected because of their willingness to buy new homes now.

Within each section—on first-time buyers, move-up buyers and empty-nesters—are short case studies of housing projects targeted to that type of buyer. All the projects shown are winners in the 1983 MIRM awards program, a national marketing contest sponsored by BUILDER and NAHB's Institute of Residential Marketing.

In addition to being a contest winner, each project has many of the qualities and features buyers who were surveyed indicated they were looking for in a new home. That all the projects have been successful seems to indicate that buyers do want what they say they want.

While each buying group analyzed for this story does have specific and different preferences and reasons to buy—for example, first-time buyers see a new home as an investment, and empty-nesters really don't—some general conclusions about new home buyers can be drawn. Among them:

- Finding a more energy-efficient home is a top priority;
- Buyers still see housing as a sound investment (two-thirds think home price increases will keep pace with inflation, and one-third think they'll exceed inflation);
- Buyers may accept smaller houses, but only one in nine is looking for a smaller house;
- Very few buyers have the options they most want—volume ceilings, pantries, whirlpool tubs, skylights and fireplaces, to name some—in their present homes.

THE SURVEY

The 1984 survey of prospective new home buyers was a joint venture of BUILDER and George A. Fulton Research & Consulting, Fairfax, Va. The survey results are based on responses of 2,176 prospective buyers to a four-page questionnaire.

The survey was conducted during the last six months of last year among prospects visiting model home complexes in six major markets: Boston, the Maryland and Virginia suburbs of Washington, D.C., St. Louis, Houston, Portland, Ore., and Southern California.

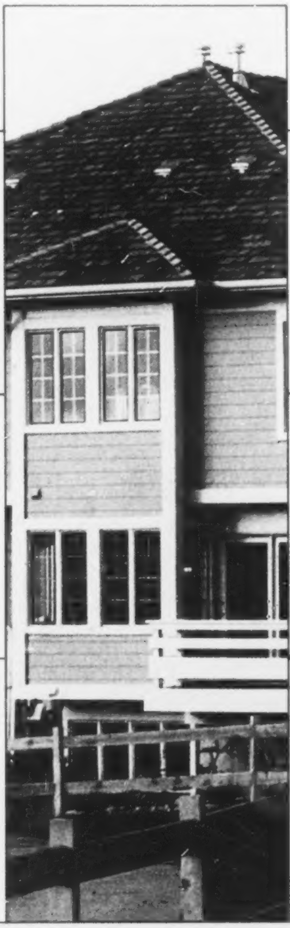
To ensure that those surveyed would be representative of all important market segments, the surveys in each area were conducted at low, medium and higher-priced housing developments. In addition, some of the developments had detached housing, others had attached. The table (above right) lists some key characteristics of those surveyed. All survey results in this story represent national figures.

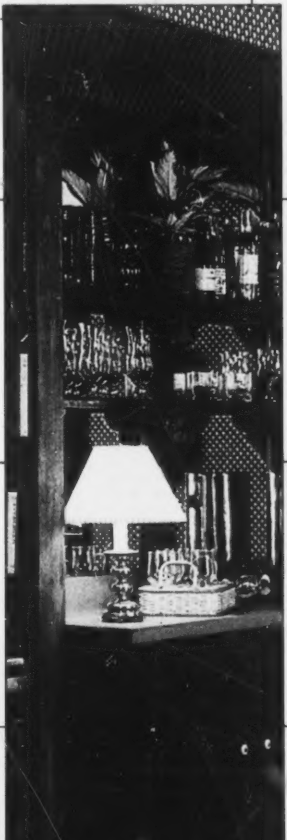
Local sponsors conducted the surveys in each market. The local sponsors were: The Codman Co., Inc., Boston; Long & Foster Realtors, Fairfax, Va.; Berry-Fulton Research, Clayton, Mo.; CDS Research, Houston; Home Builders Association of Metropolitan Portland, Lake Oswego, Ore.; the Orange County Chapter of the Building Industry Association of Southern California, Santa Ana, Calif., and the Sales and Marketing Council of Southern California.

ERS WANT

PROSPECTIVE NEW HOME BUYERS

Characteristics	Single male adult	Single female adult	Couples without children	Couples with children	Single parent with children	Unrelated individuals
Sample size	106	142	777	1,015	66	70
Percent of total	5%	7%	36%	46%	3%	3%
Median age	32	35	35	36	40	32
Median household income	$34,000	$28,000	$44,000	$45,000	$29,000	$37,000
Own current home	37%	53%	64%	80%	59%	48%
Rent current home	63%	47%	36%	20%	41%	52%
Current median home value	$94,000	$88,000	$97,000	$94,000	$102,000	$80,000
Equity in current home	$36,000	$37,000	$49,000	$42,000	$44,000	$27,000
Median rent	$414	$410	$445	$461	$450	$462





FIRST-TIME BUYERS

First-time buyers are ready to buy if the price is right, the house is big enough and it has the features they want most.

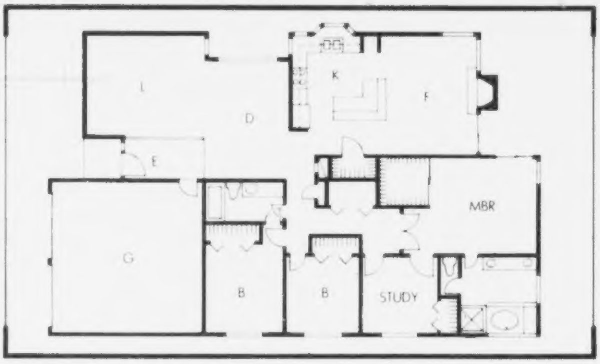
No wonder first-time buyers are the first choice of so many builders. These buyers not only are free to buy without first selling their current home. They are so eager to own a home that they will stay in the market when interest rates rise and will sacrifice many desired features to afford the unit.

The survey defines prospective first-time buyers as renters and examines the largest group of renters—those paying $300 to $500 a month in rent. Here's a profile of that group:

- Most, 71 percent, are young couples earning $20,000 to $40,000 a year;
- A significant portion, 24 percent, are singles shopping on their own;
- Their median income is $33,500;
- About 14 percent of their income goes to pay rent;
- They expect to pay $739 a month—that's 26 percent of income—when they buy;
- They plan to pay a median price of $82,000 for a new home.

On the surface it appears that the 1,535-square-foot home first-time buyers want is beyond their means. With a 7 percent down payment, a 13 percent loan and monthly mortgage payments of $619 (plus $120 a month for taxes and insurance), they could afford a $60,168 house. What to do? Of course they could settle for a smaller unit: They could afford a 926-square-foot home that costs $65 a square foot. Or they could buy a house in a high-density community or a location farther from town where land costs are lower. They could accept an adjustable rate mortgage. Or they could budget a larger share of household income—35 percent—for principal, interest, taxes and insurance.

Even among first-time buyers, single-family detached homes are the overwhelming favorite. Nearly three-quarters of the group would buy a detached house while half would buy a townhouse (most of those live in the East). Much less popular are mid-rises and highrises. These buyers are looking for a home with three bedrooms and two and a half baths.



EXTRA, EXTRA . . .

$300 to $500 options	Percent who would select
Oversized bathtub	45%
Tile or wood entry	42
Microwave oven	40
Skylight	40
Double-basin master bath vanity	37
Upgraded kitchen floors	30
Ceramic tub and shower enclosure	29
Barbecue cook top	11
Intercom system	9

$500 to $1,000 options	Percent who would select
Walk-in kitchen pantry	33%
Island cook top	29
Built-in shelving	29
Whirlpool tub	25
French doors	22
Ceramic kitchen counters	21
Volume ceilings	20
Upgraded entry doors	15
Central vacuum	13
Stained-glass windows	10

$1,000-plus options	Percent who would select
Family room fireplace	47%
Separate tub and shower in master bath	38
Bay window	35
Living room fireplace	35
Patio deck or slab	32
Hardwood floors	27
Master bedroom patio or balcony	22
Master bedroom fireplace	21
Small greenhouse room	18
Master bedroom retreat area	16
Extensive landscaping	9
Additional space for a small computer	6

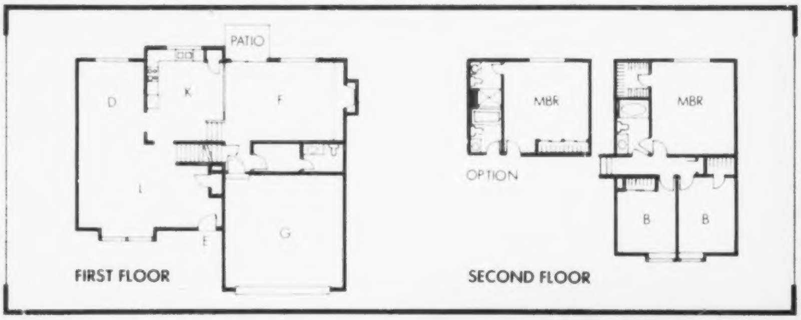
NORTHMEAD VILLAGE

The Alta Loma plan at Northmead Village in Copperfield, Houston, has the basics first-time buyers want—three bedrooms, two baths, a country kitchen and an open plan—as well as many of the extras—an oversized tub and a separate shower, a skylight, kitchen pantry, microwave, tile foyer, family room fireplace and vaulted ceilings.

And it offers both at a price, $90,990, that buyers can afford.

Buyers for this unit have been couples in their early 30s with one child. Though young, the buyers have a substantial average household income of about $45,000.

Category: Best interior merchandising/target buyers first-time traditional family
Award: Gold
Project: Northmead Village in Copperfield, Houston
Builder: David Weekley Homes, Houston
Architect: David Weekley Homes
Interior designer: Kathy Andrews Interiors, Houston



WHY THEY'D BUY

Motivating factor	Percent influenced
Tired of renting	65%
Tax advantages	64
A more energy-efficient home	51
Investment potential	45
Larger home	43
Better neighborhood	33
New design features	32
Larger yard	28
Growing family	25
New product features	22
Better schools	18
Closer to work	18
Less yard maintenance	15
Community recreation facility	15
Change of scene	12

Easterners like two-story homes but in the Midwest and Sunbelt buyers prefer one-story homes. Nationally, 20 percent of first-time buyers are looking for split-level units, and they're having trouble finding them. They would be happy with level changes as simple as raised dining areas or sunken living rooms.

Volume ceilings appeal to first-time buyers, especially in the living room, family room and master bedroom. In another respect, though, these buyers show a taste for the traditional. No great room, please: Most prefer a floor plan that defines the living, dining and family rooms but allows visual flow through the spaces. One in three buyers wants these rooms to be completely separate.

A barbecue cook top, stained-glass windows and a greenhouse room all sound good until it comes to paying for them. When told how much these and other upgrades would add to the price of a home, more than 60 percent of first-time buyers chose to do without them. But they would pay for a few luxuries; they would spend an extra $1,000 or more for a family room fireplace, for instance, and $300 to $500 for an oversized bathtub, tile or wood entry floor or skylight.

Most first-time buyers are young, childless, active and anxious to live close to job and entertainment. That explains why almost half are looking for a home no more than a half-hour commute from work. One in four would commute 30 to 45 minutes and another one in four would commute longer. Given the choice of a detached house an hour from work and a comparable townhouse half as far, the buyers were evenly divided: 43 percent chose the detached house and 43 percent the townhouse.

There's a basic reason why the first-time market is so good. These buyers really are ready to move. More than half plan to buy within a year and a third want to buy immediately. Why? They simply are tired of renting. They would rather invest in a home than sink more money into rent. Another motivation to buy is the desire for more space than they have where they live now. But the house would have to be energy-efficient.

GREEN VALLEY RANCH

Even among price-sensitive first-time buyers detached houses are the first choice. Especially when the price is right, and it includes enough little extras as standard features.

That is the case with the Camrose model at Green Valley Ranch. It sells for $93,950 and has such asked-for features as wood entry flooring, solid wood doors, double lavs in the master bath, a barbecue cook top and a step-down family room with a fireplace.

Buyers have been 25 to 35-year-old couples with one child and an average household income of $40,000.

Category: Best interior merchandising/target buyers first-time traditional family
Award: Gold
Project: Green Valley Ranch, Denver
Builder: Richmond Homes, Ltd. (subsidiary of M.D.C. Corp.), Denver
Interior designer: Aspen Flair Interiors, Inc., Denver

Photos: Sunlit Ltd., Copyright Ken Paul 1983

MOVE-UP BUYERS

It goes without saying that move-up buyers want a better home than the one they have now. Better means bigger, jazzier, more luxurious.

To best gauge the move-up market, think of the housing these buyers already own. That is, new homes for this market should be priced according to the sum buyers will get when they sell their current homes and move up.

The lower the value of their current home the bigger the price jump they are willing to make. If their current home sells for $50,000 to $75,000 they will spend an additional 44 percent—or a total of $72,000 to $108,000—on a new home. If the current home sells for $75,000 to $100,000 they are prepared to spend 30 percent more on a move-up house; they would add 21 percent to the price of a $100,000 to $125,000 resale home; 7 percent to a $125,000 to $150,000 house; 3 percent to a $150,000 to $175,000 house. Owners of homes valued at $175,000 to $200,000 might better be called move-down buyers because they want to spend 1 percent less on a new home.

Buyers who own $75,000 to $100,000 homes represent the biggest segment of the move-up market, so this is the group the survey analyzes. In many respects it is the traditional housing market:

- Most are families with children;
- About a third are childless couples;
- They range in age from 26 to 45;
- Median income is $45,800;
- Their house payments now are $558 (15 percent of gross income);
- They have accumulated $36,630 in equity;
- Their current home is 1,710 square feet;
- They want a new home that's 14 percent larger, or 1,954 square feet;
- For that new house they are willing to pay $113,800;
- They plan on house payments of $899 a month.

What kind of house do they have in mind? In the East, a two-story. In the Midwest and Sunbelt, a one-story. Everywhere, a home with three or four bedrooms and two or two and a half baths.

New homes that are nothing but larger versions of what these buyers already have will be tough to sell unless they are real bargains. Move-up buyers are ready for a little sparkle. Most want a relatively open floor plan—one that defines rooms but provides views between them. (A third still prefer distinct rooms and only 7 percent want a completely open plan.)

Volume ceilings in the living room and family room are a big favorite. So is tile or wood flooring in the entry, even

Photos: Copyright Robb Miller 1983

PARC CHATEAU

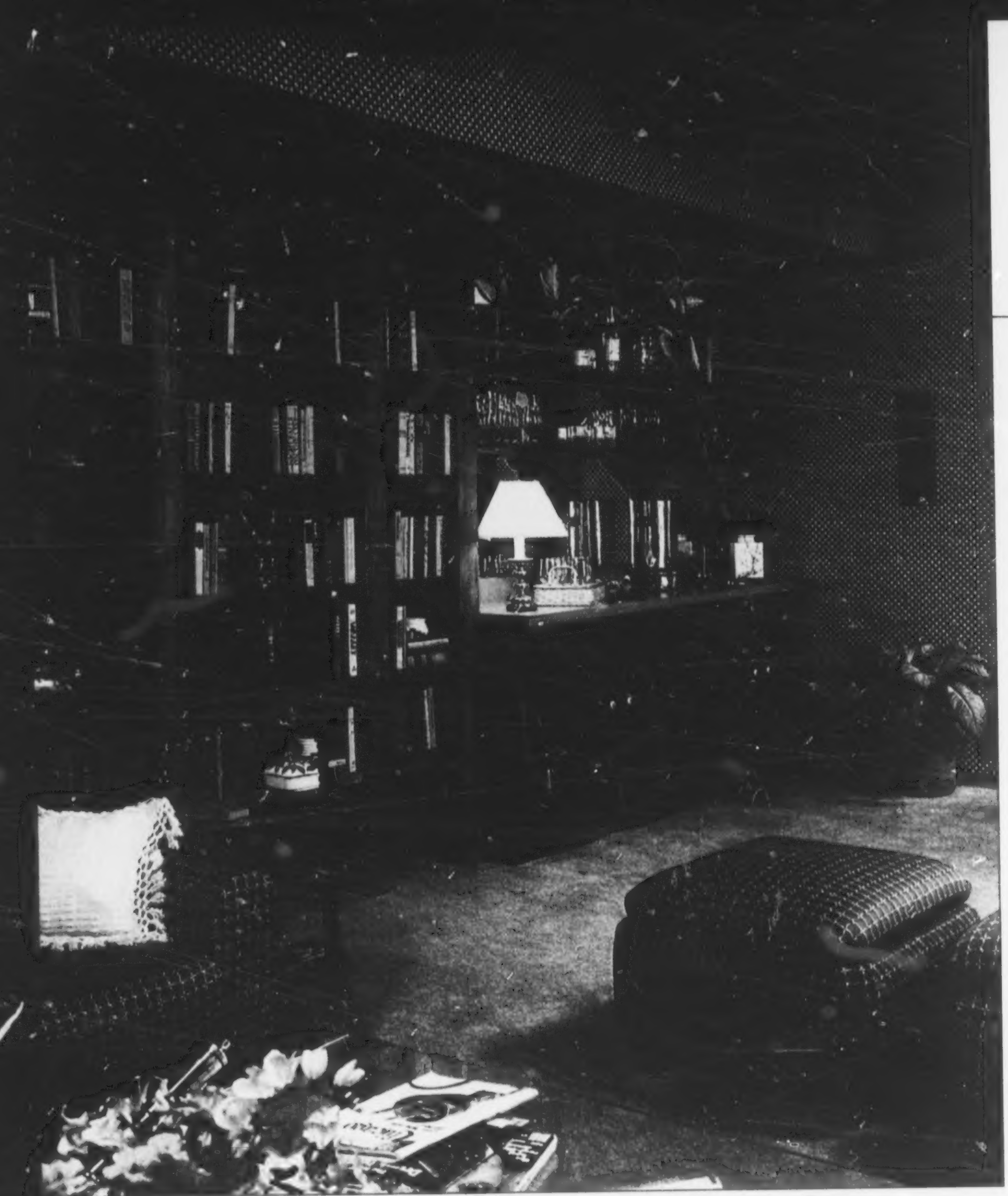
Parc Chateau lives up to its name: The homes at this New Jersey project are castles of a sort for move-up buyers, in that they give the buyers just about everything they want.

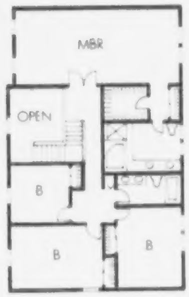
On the outside the Versailles Chateau model looks important, with a broad facade and large bay window.

Move-up buyers want fireplaces, a wet bar, built-in shelving, four bedrooms, two and a half baths. It's all here. And the master suite is practically a home in itself.

The unit sells for $148,900. Buyers have been professionals earning $85,000 to $90,000.

Category: Best interior merchandising/target buyers move-up traditional family
Award: Silver
Project: Parc Chateau, Marlboro, N.J.
Builder: Hoal Associates, Morganville, N.J.
Architect: Salkin Group, Inc., Philadelphia
Interior designer: The Childs/Dreyfus Group, Chicago





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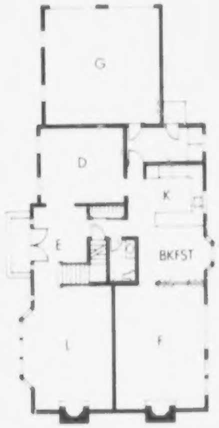


FIRST FLOOR

EXTRA, EXTRA . . .

$300 to $500 options	**Percent who would select**
Tile or wood entry	64%
Skylight	48
Double-basin master bath vanity	48
Microwave oven	46
Ceramic tub and shower enclosure	45
Oversized tub	40
$500 to $1,000 options	**Percent who would select**
Walk-in kitchen pantry	44%
Built-in shelving	34
Island cook top and work area	31
Upgraded entry doors	29
Whirlpool tub	29
French doors	25
Ceramic counters	24
Central vacuum	23
Wet bar	22
$1,000-plus options	**Percent who would select**
Family room fireplace	62%
Patio deck or slab	46
Separate tub and shower in master bath	46
Bay window	44
Living room fireplace	30
Hardwood floors	29
Master bedroom patio or balcony	24
Master bedroom retreat area	24
Master bedroom fireplace	20
Extensive landscaping	19
Small greenhouse room	17

though it adds $300 to $500 to the price of the house. Most move-up buyers would pay an extra $1,000 or more to have a fireplace in the family room. And almost half the group would pay extra for a patio, a bay window or a skylight.

But it's not all show. Move-up buyers want to live in comfort. One in two would pay extra for such luxuries in the master bath as a double-basin vanity, separate tub and shower and ceramic tub-shower.

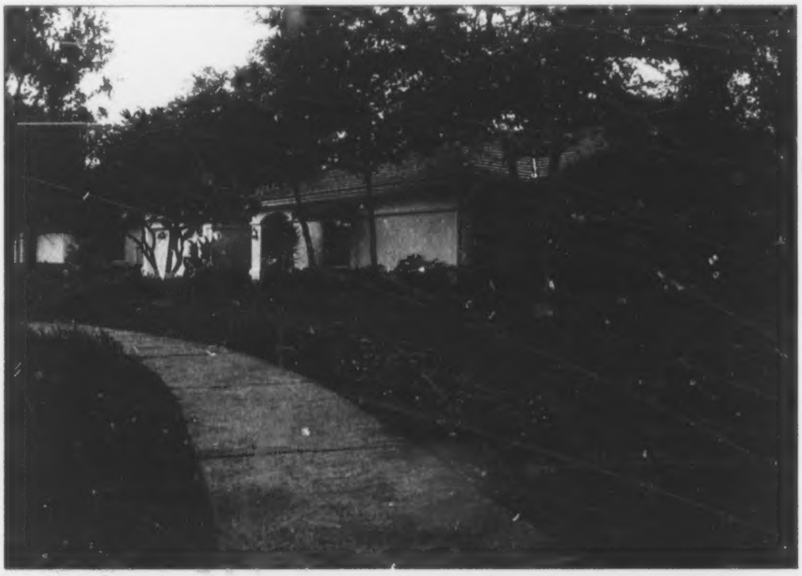
Move-up buyers are not nearly as anxious to buy as first-time buyers, but there are so many homeowners in the market—69 percent of the total—that they still are a large, important group. About 15 percent of those who own homes in the $75,000 to $100,000 bracket plan to buy a home in the near future, 39 percent within a year.

Space is the prime motivator. More than half the group surveyed would be tempted to move if they found a house larger and more energy-efficient than their current home.

Basically the move-up market has three levels. At the bottom is the group most concerned about price. Give them a no-frills home emphasizing square footage; most extras would be options. Next is the group looking for a good price as well as a little pizazz. At the top are design-conscious buyers who would sacrifice some space to gain exciting features in the standard package.

WHY THEY'D BUY

Motivating factor	Percent influenced
A more energy-efficient home	55%
Larger home	52
New design features	36
Tax advantages	33
Better neighborhood	31
Less yard maintenance	29
Investment potential	27
New product features	25
Larger yard	23
Growing family	18
Change of scene	17
Fewer people at home	16
Better schools	16
Closer to work	13



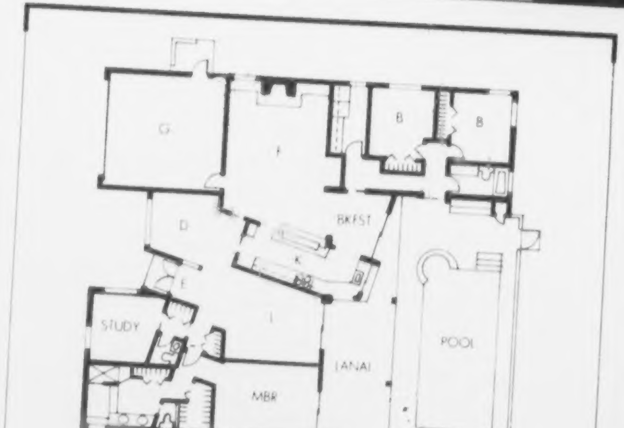
LAKE MAGDALENE MANORS

If, as the survey found, moderate-income move-up buyers want a home with sparkle, high-income move-up buyers should have one that dazzles. The Gulfstream II model at Lake Magdalene Manors in Tampa does.

At $226,900 it has the basics—four bedrooms, two and a half baths in a one-story plan. But what a plan: daring angles and room shapes, vaulted ceilings in almost every room, a porch shared by the living room and master suite and, beyond that, a pool. The master bath is equipped with every luxury and tiled to a T.

Buyers have been executive couples earning $100,000 or more.

Category: Best interior merchandising/target buyers move-up traditional family
Award: Gold
Project: Lake Magdalene Manors, Tampa, Fla.
Builder: Arthur Rutenberg Homes by Lyons-Raffo Corp., Tampa
Architect: Arthur Rutenberg Corp., Clearwater, Fla.
Interior designer: Carole Eichen Interiors, Inc., Santa Ana, Calif.



EMPTY-NESTERS

Empty-nesters have plenty of buying power, but they need to be convinced that new homes are better suited to their changing lifestyles than are the homes they already own.

There's a lot of interest in the empty-nester market, probably because empty-nesters have high incomes—a median of $46,000—and they have substantial equity, a median of $73,000. But while empty-nesters are financially capable of buying, almost half those surveyed have no plans to purchase a new home. For the most part empty-nesters have comfortable homes and no pressing reason to move.

For this survey prospects who were 45 years or older and had no children at home were classified as empty-nesters. The group had the following characteristics:

- Their median age is 55;
- Most, 84 percent, are couples;
- Income ranges rather evenly from $20,000 to $100,000;
- Three-quarters live in single-family homes, and almost 90 percent are homeowners;
- Home values range from $50,000 to $175,000, with a median price of $108,000;
- Present house size ranges between 1,000 and 3,000 square feet, with a median of 1,864 square feet.

Using medians as guidelines, empty-nesters own houses valued at $108,000 and are seeking a home selling for $98,500. A rule of thumb would be to price new housing for empty-nesters approximately 10 percent below the value of their current homes.

One of the biggest mistakes in building for the empty-nester market is undersizing the new houses. Empty-nesters may be looking for a floor plan that's substantially different from their present home, but they don't want dramatically

EXTRA, EXTRA . . .

$300 to $500 options	Percent who would select	$500 to $1,000 options	Percent who would select	$1,000-plus options	Percent who would select
Tile or wood entry	59%	Walk-in kitchen pantry	42%	Family room fireplace	49%
Microwave oven	50	Built-in shelving	37	Separate tub and shower in master bath	43
Double-basin vanity in master bath	45	Island cook top	31	Patio deck or slab	42
Ceramic tub and shower enclosure	44	Upgraded entry doors	30	Living room fireplace	30
Upgraded kitchen floors	41	Central vacuum	29	Bay window	29
Skylight	41	Ceramic tile counters	28	Hardwood floors	24
Intercom system	20	Whirlpool tub	22	Master bedroom patio or balcony	22
		Wet bar	20	Master bedroom retreat area	20

Photos: Copyright Robb Miller 1983

EASTLAKES AT EASTPOINTE

Although only the most affluent of empty-nesters could afford the $200,000 retirement-resort homes at Eastlakes at Eastpointe, the Addison model there has many features that would appeal to the full range of empty-nesters.

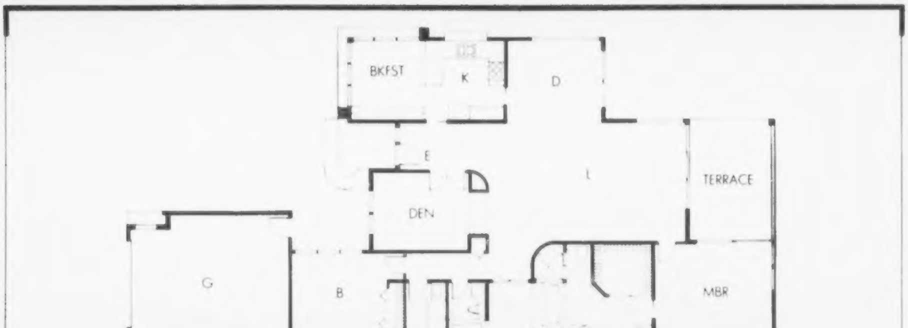
For example, the units are clustered on small lots, so yard maintenance isn't much of a problem. In addition, the unit is one story.

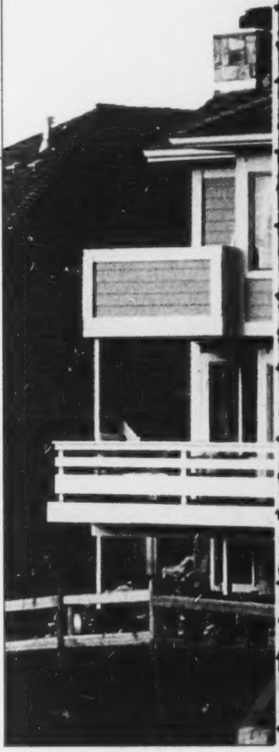
Big enough for a small sitting area, the master bedroom opens to a private, rear patio. As it should, the bathroom has double lavatories and a separate tub and shower. The unit has two other bedrooms, and one can be converted to a den.

Another plus: The plan is open through the living and dining rooms.

Buyers at Eastlake at Eastpointe are for the most part 50-year-old married couples without children. Their average annual household income is $100,000.

Category: Best interior merchandising/target buyers resort or second home
Award: Silver
Project: Eastlakes at Eastpointe (Addison model), Palm Beach Gardens, Fla.
Builder: Trafalgar Developers of Fla., Palm Beach Gardens
Architect: Design Advocates, Tampa
Interior designer: The Childs/Dreyfus Group, Chicago





less space. In fact, most say they're looking for homes only about 5 percent smaller than their current residence.

Another misconception, according to this survey, is the assumption that most empty-nesters prefer townhouses. As it is, only 40 percent of the 309 respondents indicated they would seriously consider buying a townhouse; on the other hand, two-thirds would seriously consider buying a single-family home. The message here: Rather than build traditional townhouses for empty-nesters, think about building clustered detached units. (The survey shows that small-lot patio homes would satisfy many empty-nesters.)

One common conception the survey supports is that single-story units are the favorite of older buyers.

More than half of these buyers want a house with three bedrooms while about a third ask for only two bedrooms. (If three bedrooms are offered, one should be convertible to a den or guest room.) Homes for these buyers should have at least two full baths and preferably two and a half.

Because empty-nesters are equity rich, expect them either to ask for upgrades or to look for certain upgrades as standard features in new homes. Among options that cost $300 to $500 extra, the most popular with these buyers are tile (or wood) entries, microwave ovens and double bathroom vanities. Walk-in kitchen pantries and built-in shelving are the most asked-for $500 to $1,000 upgrades, while a family room fireplace, patio and separate tubs and showers in master baths were the $1,000-plus extras.

When it comes to floor plans, empty-nesters are not as conservative as might be expected. For example, 60 percent would prefer a relatively open floor plan. And half would like volume ceilings in the living room and family room.

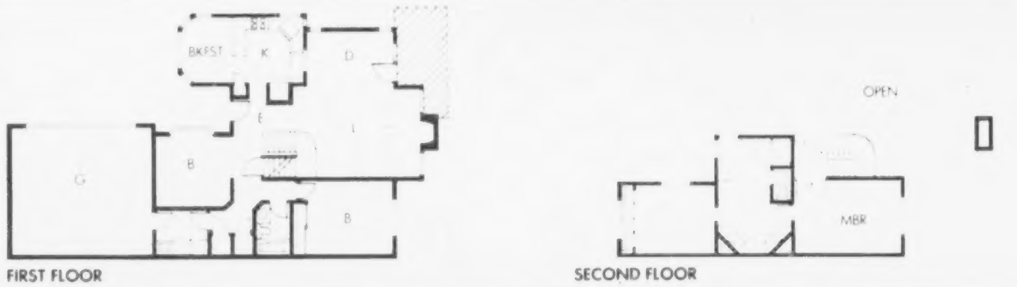
Most empty-nesters still have jobs, so commuting time from home to work is a factor. Two-thirds of those surveyed said they want their commute to be less than 30 minutes.

Certain factors act as important motivators to empty-nesters who want to move. Two that rank high are having fewer people at home and a desire for less yard maintenance. Finding a more energy-efficient home is another important factor.

Compared with other buyers, empty-nesters downplay the investment potential of a new home. These prospects on average plan to buy a home at 90 percent of their current home's value.

WHY THEY'D BUY

Motivating factor	Percent influenced
A more energy-efficient home	54%
Less yard maintenance	51
Fewer people at home	44
Smaller home	38
New design features	38
Tax advantages	31
New product features	30
Investment potential	23
Better neighborhood	19
Larger home	17
Change of scene	15
Security system	14
Tired of renting	10



FIRST FLOOR

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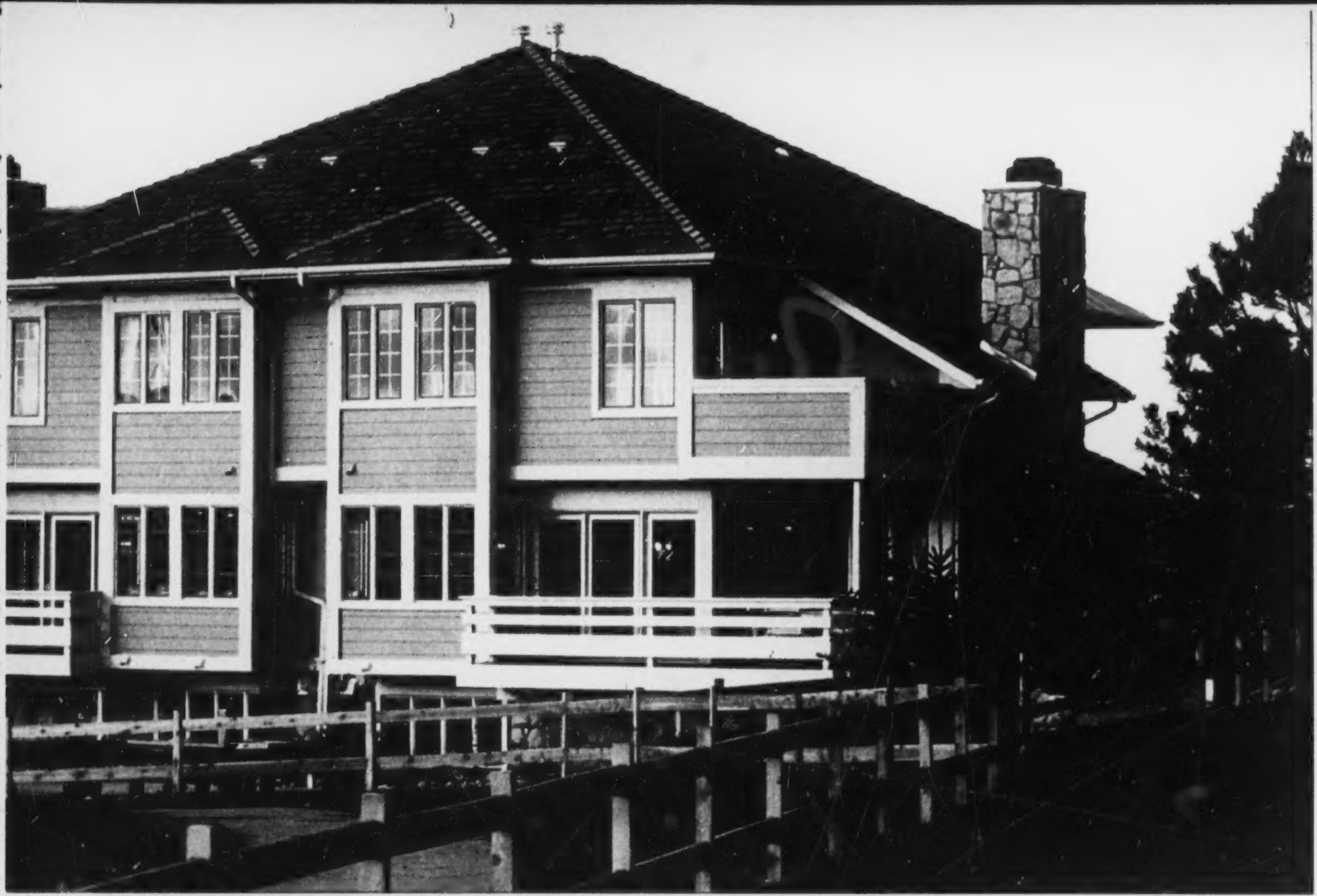
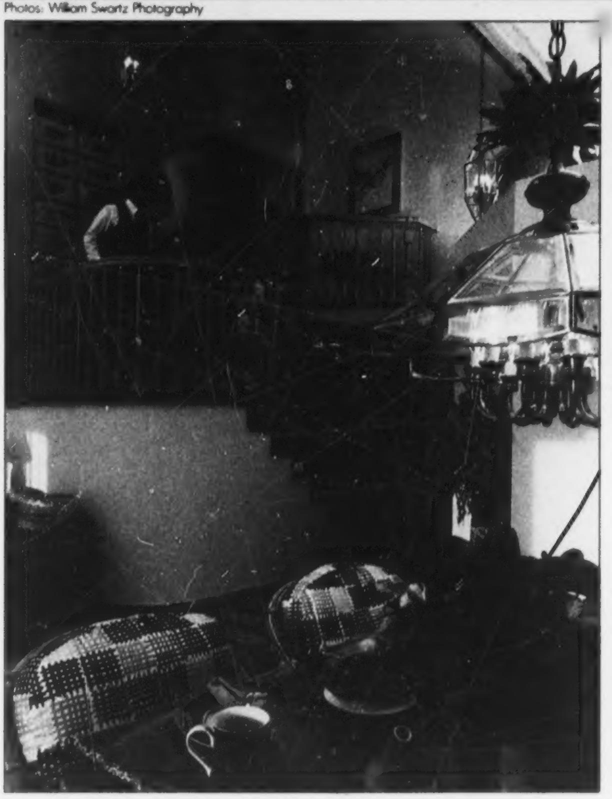


Photos: William Swartz Photography



PLAYERS CLUB VILLAS

The success of the Players Club Villas at Plum Creek—11 sales in just one month—should put to rest the notion that all empty-nesters are conservative about housing design. One of the most popular plans (left), a two-story, $163,000 unit, has an open plan, vaulted ceilings through most of the first floor, a huge master bedroom retreat and an almost sinful master bath.

The unit also has features that are less sexy but still important to these buyers. Those features include an attached two-car garage, a kitchen pantry, a living room fireplace and a breakfast room.

Buyers at the Players Club Villas have been 45-year-old couples, some with one child at home. They're moving down from nearby single-family homes, and their annual incomes range from $55,000 to $65,000.

Category: Best interior merchandising/target buyers empty-nesters or retired

Award: Silver

Project: Players Club Villas at Plum Creek, Castle Rock, Colo.

Builder: Environmental Developers, Inc., Aurora, Colo.

Architect: Paul Thoryk & Associates, San Diego

Interior designer: Jenice Benton Interiors, Tempe, Ariz.

BUYER PROFILE AT A GLANCE

It makes sense to tailor a project to particular buyers if there are enough of them. Fact is, though, that unless they are located in large metropolitan areas most projects have to draw on a variety of potential buyers.

Even so, aiming such projects at likely buyers does not have to be a stab in the dark. The two tables shown here provide an at-a-glance profile of potential buyers for various types of housing.

For instance, the table below left shows that half the buyers at a townhouse project priced at $91,900—the median prospects surveyed plan to pay—would be renters (first-time buyers) and half now own homes.

PROSPECTS WHO WOULD SERIOUSLY CONSIDER BUYING. . .

Profile	Single-family detached house	Townhouse	Mid-rise condo (2 to 3 floors)	Highrise condo (4 or more floors)
Median age	35	34	38	41
26 to 35	42%	40%	33%	23%
36 to 45	30%	23%	24%	33%
46 to 55	13%	16%	17%	26%
Households by type				
Single male	4%	9%	9%	18%
Single female	4%	13%	19%	20%
Couple without children	35%	42%	37%	34%
Couple with children	53%	25%	23%	15%
Single parent with children	2%	6%	7%	7%
Unrelated individuals	2%	5%	5%	7%
Household size	3.0	2.3	2.3	2.1
Own current home	72%	50%	54%	63%
Rent current home	28%	50%	46%	37%
Rent	$442	$454	$421	$488
Current median home value	$93,400	$98,960	$94,500	$100,000
Median household income	$43,500	$40,000	$36,500	$46,000
Planned purchase price	$107,000	$91,900	$90,200	$99,400
Home size desired	1,938 sq. ft.	1,755 sq. ft.	1,461 sq. ft.	1,480 sq. ft.
Number of bedrooms desired				
One	0	1%	2%	2%
Two	8%	32%	46%	56%
Three	47%	55%	42%	36%
Four	41%	12%	8%	7%
Five or more	5%	1%	2%	0

Generally, townhouses have been geared to first-time buyers. But the survey shows that move-up buyers will not insist on buying a single-family detached unit if they find a townhouse with the right location, features and price. Most successful townhouse projects carry prices below those of comparable single-family detached homes.

Use the table below right to determine if a project meets the needs of its most likely buyers.

PROSPECTS WHO PREFER. . .

Single-story house	Two-story house	Split-level house
40	34	34
32%	47%	45%
25%	11%	28%
19%	2%	12%
4%	6%	5%
7%	5%	9%
40%	34%	34%
44%	49%	46%
3%	3%	4%
3%	3%	3%
2.7	2.9	2.8
74%	66%	64%
26%	34%	36%
$429	$458	$435
$93,100	$94,900	$94,000
$40,000	$45,000	$42,000
$94,100	$110,000	$105,400
1,798 sq. ft.	1,997 sq. ft.	1,895 sq. ft.
1%	0	0
19%	13%	14%
55%	40%	46%
24%	41%	34%
1%	6%	5%

THERE'S MORE TO TELL

BUILDER's survey of prospective new home buyers produced a wealth of information, much of it available in a series of special reports. Each report presents the responses of a group of buyers in the six areas where the survey was conducted: Boston, Washington, D.C., St. Louis, Houston, Portland, Ore., and Southern California. The reports cover total markets as well as specific segments of those markets. Data are in percentages, medians and means. Look over the following list and use the coupon to order the reports you want.

SURVEY REPORTS

First-time buyers

1. Total sample
2. Monthly rent $300 or less
3. Monthly rent $300-$500
4. Monthly rent $500-$700

Move-up buyers

5. Total sample
6. Current home value $50,000 or less
7. Current home value $50,000-$75,000
8. Current home value $75,000-$100,000
9. Current home value $100,000-$125,000
10. Current home value $125,000-$150,000
11. Current home value $150,000-$175,000
12. Current home value $175,000-$200,000
13. Current home value $200,000 or more

Empty-nester buyers

14. Total sample

Prospects grouped by type of house they would seriously consider buying

15. Single-family detached houses
16. Townhouses
17. Mid-rise condos (two to three floors)
18. Highrise condos (four or more floors)

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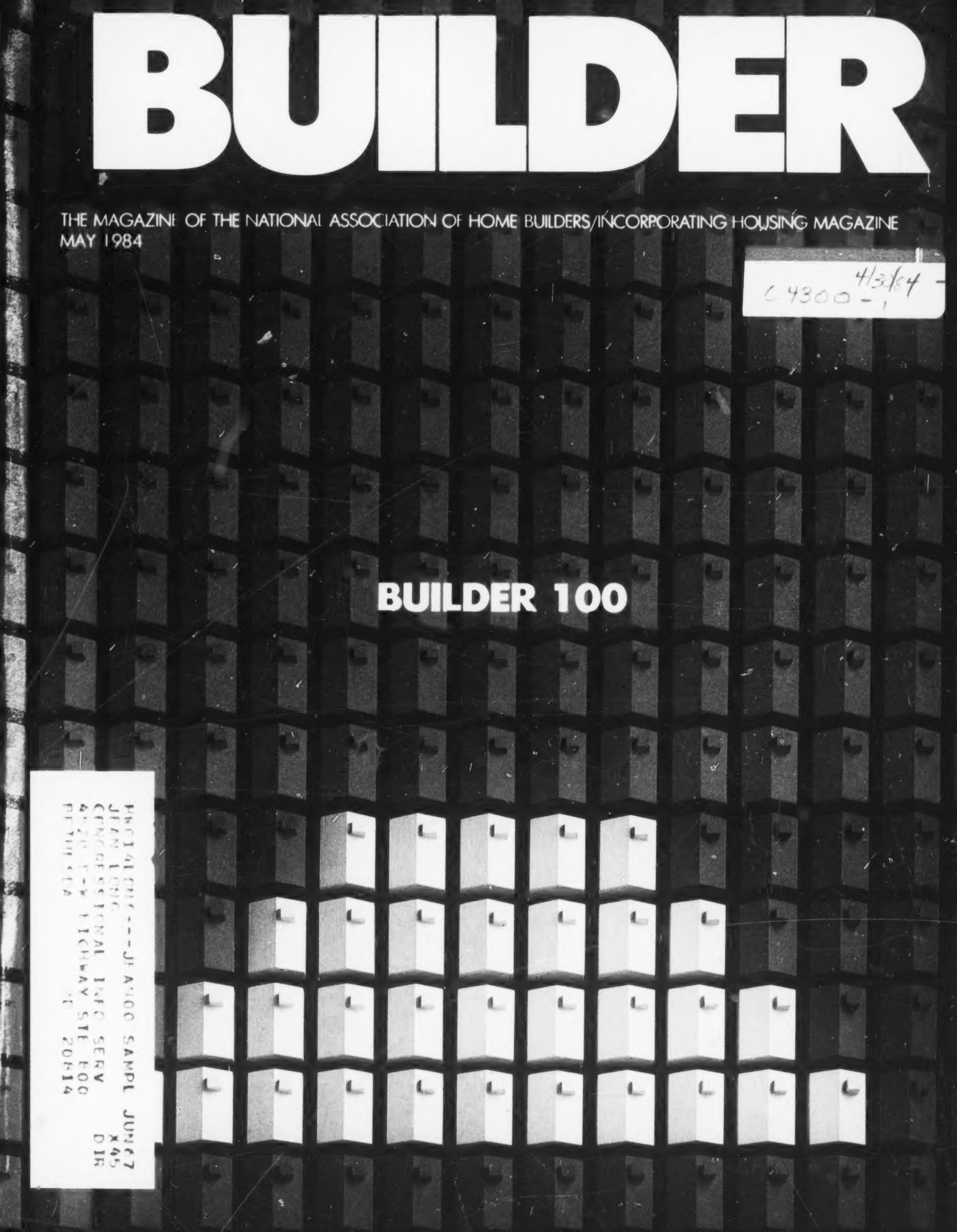

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37—HOUSING ROUND TABLE: "BUILDING THE AMERICAN DREAM"

Housing's robust recovery had been the biggest news about housing this year until President Reagan participated in a lively round table, sponsored by BUILDER. The panel members told the President the budget deficit and climbing interest rates threaten the recovery he had come to herald.

122—BUILDER 100

The Fortune 500 is a standard for the business world. Now the housing industry has a new standard: the BUILDER 100, a listing of the 100 companies that built the most new homes last year.

(Cover: BUILDER 100. Photo: Copyright David Arky 1984)

158—PICTURE PERFECT

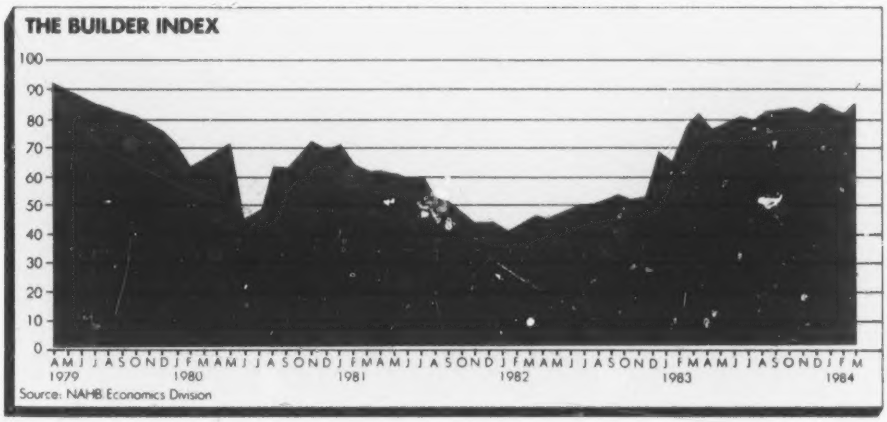
Sometimes pictures alone can tell a story. In this story they speak volumes about the beauty of five spectacular custom homes.

176—PROJECT OF THE MONTH

In just two years Omni Homes has become one of the biggest single-family builders in Dallas, the biggest housing market in the country. How? By selling high-style but low-cost housing to first-time buyers.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

The BUILDER Index increased substantially in March to 83.45, indicating that housing activity should remain strong at least through most of this year.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Nothing's Wrong

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

As the first quarter ended, the major economic debate—other than the one about the deficit—centered on, of all things, economic growth. In the opinion of some, the estimated 7.2 percent real growth during the first quarter was just too much. This group reasoned that growth will strain our resources and trigger inflation.

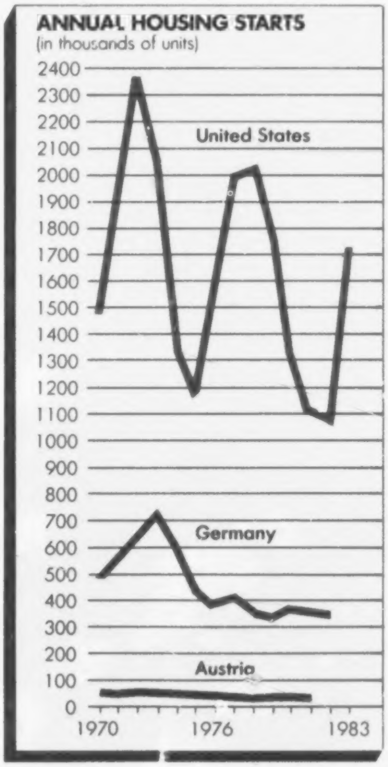
But there is something wrong with this line of reasoning. Better to ask: What's wrong with a little prosperity?

A year and a half ago those now worried about too much economic strength were decrying a recession that had devastated the economy. At the end of 1982 almost 12 million people were out of work, a new unenviable record. The unemployment rate was a sickening 11 percent. It was even worse in the construction trades, 22.8 percent.

At the same time the gross national product was declining at an annual rate of 2 percent, plants were closing, the bankruptcy rate reached a new high and television carried pictures of soup lines.

Finally last year the economy began to pick up, and the year ended with an economic growth rate of 3.4 percent. When the growth rate hit 9.7 percent in the second quarter, the Fed tightened up. As a result, interest rates increased by about 1 percentage point and growth slowed to 7.6 percent in the third quarter, then 5 percent in the last quarter.

Now, the Fed apparently has tightened again, and interest rates have started to increase. A major reason cited for the tightening is the presumed fast economic growth.



But the real question is whether the economy is growing too fast.

I don't think so. Some 9 million people still are out of work. Unemployment among teenagers still is close to 20 percent, for blacks nearly 17 percent and twice the number of married men are out of work now compared with five years ago.

Manufacturing capacity utilization is up to 80 percent, but still significantly below the 85 percent levels of the late 1970s. Industrial production is up from the pre-recession year of 1979, but the total picture can be misleading. For example, while production of consumer goods, chemicals and food is up, production of primary metals and transportation equipment, including autos, is down. In the past five years the percentage of workers employed in industries producing goods has declined from 30 percent to 27 percent and the percentage of those employed in service industries has increased from 71 to 73 percent.

Moreover expenditures for industrial construction are nearly a third below last year.

No, the problem is not runaway private economic growth. The pickup is

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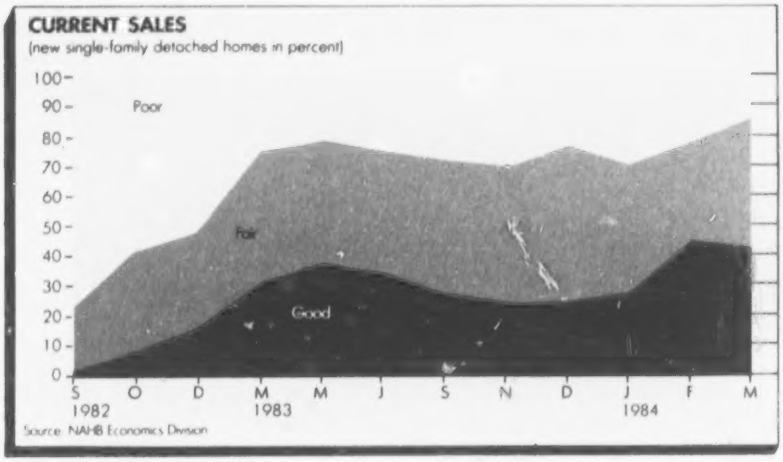
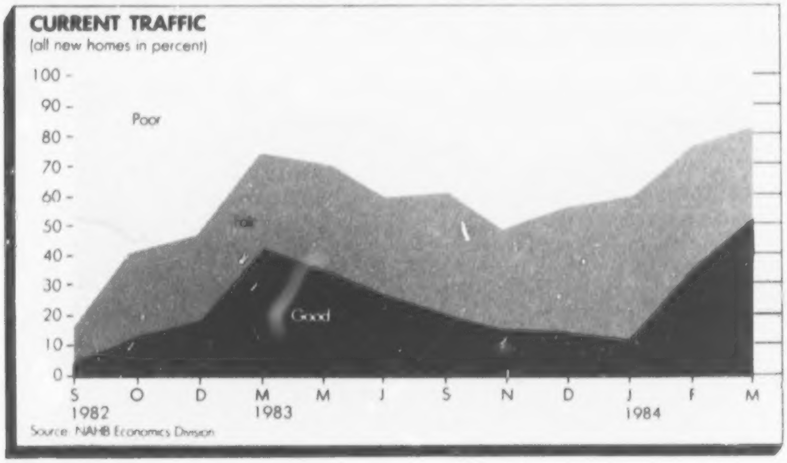


CURRENT SALES

(new single-family detached homes in percent)

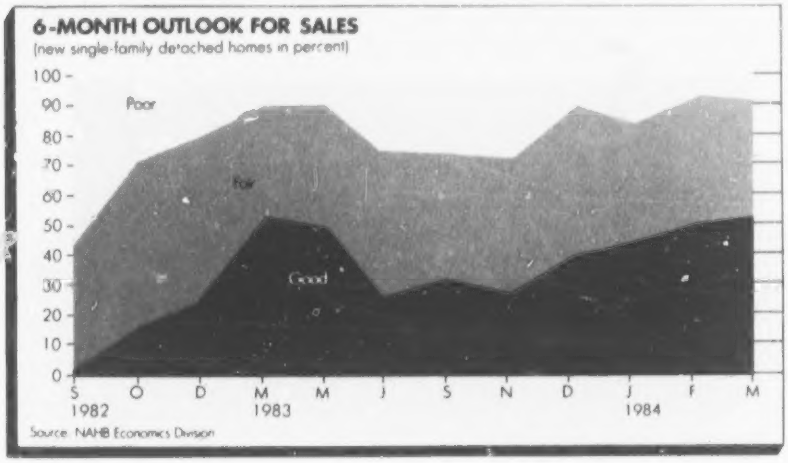
Source: NAHB Economics Division



CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

A VERY GOOD YEAR

Housing is off to a fast start this year, and an overwhelming majority of builders expect new home sales to remain strong at least through the November elections.

According to the March BUILDER poll, traffic and sales are better than they have been for a long time. For example, a builder from Washington said, "The market here is stronger than it has been since 1979." And a builder from Massachusetts said, "It's finally a sellers' market again."

Nationwide almost 90 percent of the builders surveyed reported that new single-family home sales (top chart) and traffic (middle chart) were fair to good. In both cases the reports had not been this favorable since 1978.

The market appears to be strongest in the Northeast, where 61 percent of the builders said sales were good, and weakest in the North Central region, where only 13 percent of the builders reported good sales. About half the builders in the South and a third of those in the West said sales were good.

The current optimism carries over into the near future. More than 90 percent of those surveyed expect sales to remain strong for at least six more months. The most common comment: 1984 looks like a very good year for housing.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the six-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

BORROWER'S MARKET

Builders of income properties are enjoying a buyer's market in short-term, fixed-rate commercial mortgages. In its monthly Benchmark Survey of the income-property mortgage market, Citicorp Real Estate quoted one mortgage lender's description of the present situation. "Lenders are under pressure from having so much money to put out, and borrowers play one lender off against another. They are asking for every possible advantage on their deals, or they will stay on their open-end construction loan." The most common concessions developers seek are more lenient lease-up requirements, higher loan amounts in proportion to projected income and fewer restrictions on additional financing from other sources.

BULLISH ECONOMISTS

Investment advisors and economists surveyed by an international accounting firm predicted robust improvement in the 1984 economy. The 42 participants in the eighth annual Peat Marwick Survey of Economic and Capital Market Expectations forecast a 22.5% increase in corporate profits, a 10.9% growth rate in commercial real estate investments, 10% growth (or 4.9% adjusted for inflation) in the gross national product, and a 17.4% total return on common stocks. They expected inflation to increase to 5% this year and keep going up. Unemployment is expected to gradually decrease to 6% by the year 2000. "The majority of survey respondents believed that the Federal Reserve is fostering sufficient, not excessive, monetary growth, and that the budgetary gap will narrow as the economic recovery progresses," reported William A. Dreher, a partner at Peat Marwick.

HOUSES ARE NO SMALLER

The median size of new detached houses last year was 1,490 square feet—virtually unchanged from the year before, according to the NAHB Economics Division. After dropping in the first quarter of 1983, the median size rose during most of the year before falling off to 1,513 square feet in the fourth quarter. The strongest shift to larger houses occurred in the North Central where the proportion of new houses with less than 1,000 square feet fell from 20% in the first quarter to 12% in the fourth. At year-end 7% of all new detached houses nationwide had less than 1,000 square feet, 42% had 1,000 to 1,500 square feet, 27% had 1,501 to 2,000 square feet, 15% had 2,001 to 2,500 square feet and 9% had more than 2,500 square feet. The median size of attached homes declined slightly to 1,359 square feet.

FOREIGN CAPITAL FOR HOUSING

Marks, yens, pounds and other currencies will be available to the housing industry in 1984, according to Robert W. Karpe, president of Ginnie Mae. Ginnie Mae and HUD have been working together to tap foreign sources of capital by marketing Ginnie Mae securities worldwide with a mortgage-backed securities program. At a recent Western Manufactured Housing Institute meeting, Karpe announced the success of this endeavor and assured his audience that the program "will help the entire housing industry, including manufactured housing, to show continued improvement."

BAD DEBTS ABOUND

An 8% increase in the single-family mortgage delinquency rate from the third to fourth quarter of 1983 was reported by the Mortgage Bankers Association's National Delinquency Survey. The increase is the first since the first quarter of 1983 when a record high level of delinquencies was reported. Only 20% of the delinquencies were in the most serious category of 60 or more days past due. Meanwhile, the foreclosure situation continued to improve in the fourth quarter, continuing a trend that began in the third quarter. Foreclosures represented only 10% of loans with delinquency problems.

CONTINUED FROM PAGE 11

normal, but it has been accompanied by a very aggressive, expansionary fiscal policy that one economist estimates accounts for one-quarter of the economic growth.

Abnormally high interest rates are another problem. They are enticing foreigners to finance our deficit, which makes the dollar expensive and forces jobs overseas.

Another problem: We let the economy take long nose dives then try to turn it around in short order. Housing is a good example of that. Starts decline rapidly and dramatically. Lots of people get hurt in the process, and it makes for an inefficient industry. Builders go bankrupt, tradesmen move on, then, when the recovery begins, there's a mad scramble to produce housing.

Housing desperately needs more stability and less violent cycles. Compare the roller coaster-like cycles of American housing starts with the straight lines of production in Germany and Austria. Instead of enjoying prosperity and keeping an eye on longer-term economic development, some economists are decrying the growth in GNP and the fact that housing starts reached the 2 million unit level.

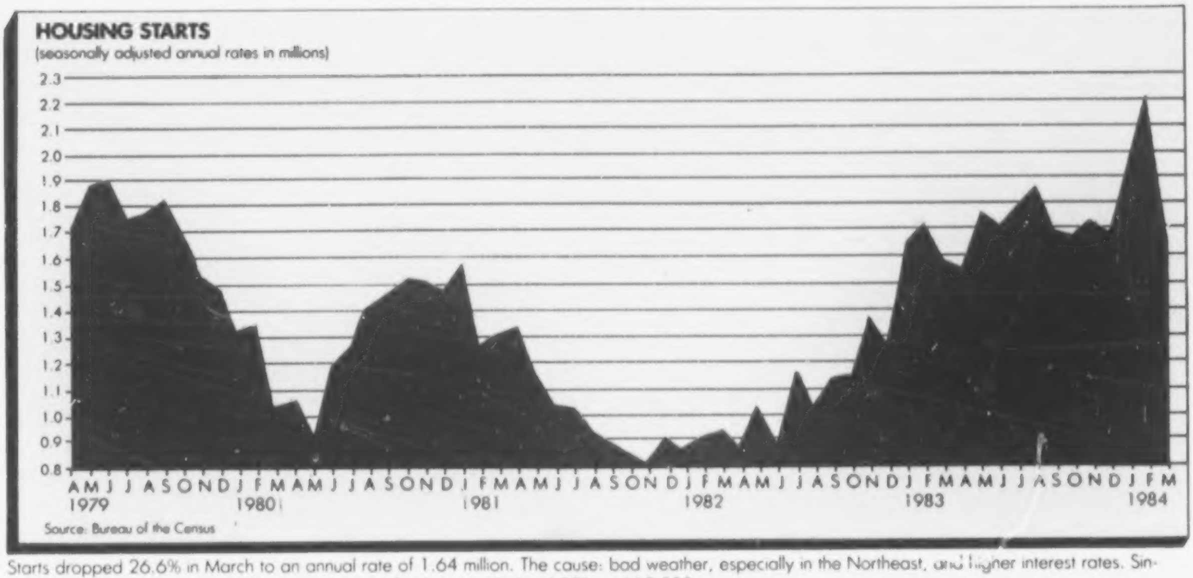
Is this housing recovery out of control? It might seem that way in comparison with the last several years, but it isn't by any historical standard. In past recoveries starts rates often ran close to 2.5 million units in any given month.

In any case, the 2 million starts rate will not last for long. Our 1984 forecast calls for 1.83 million starts. The first look into 1985 shows a decline to 1.54 million units, or a drop of 16 percent.

Is the economy overheated? "I don't think the economy is overheated. I think there are some overheated economists," summed up Preston Martin, vice chairman of the Fed.

Let's enjoy the fruits of the recovery, not kill it by forcing higher interest rates.

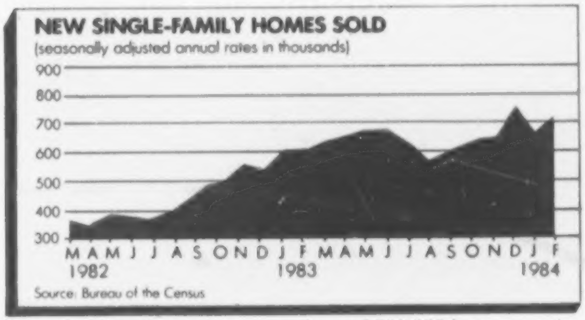
OUTLOOK/STATISTICS


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

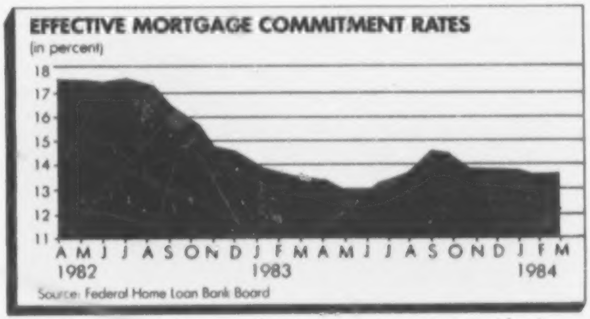
Starts dropped 26.6% in March to an annual rate of 1.64 million. The cause: bad weather, especially in the Northeast, and higher interest rates. Single-family starts fell 29% to 1.03 million while multifamily starts declined 22% to 612,000.


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

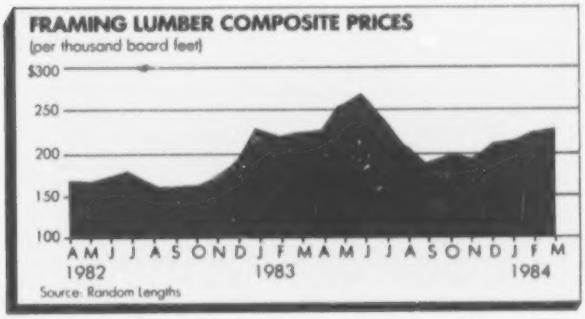
Sales rose 8% in February to an annual rate of 721,000 from a revised January rate of 669,000 units. The February sales rate was 22% higher than a year earlier.


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

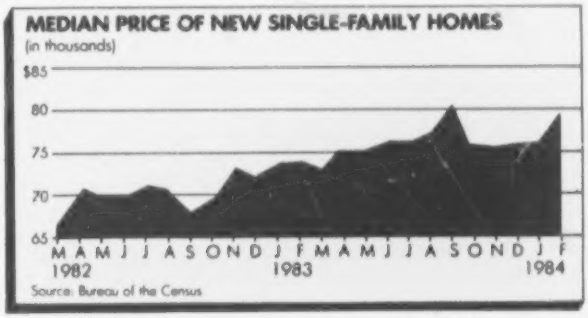
Commitment rates on long-term, fixed-rate mortgages increased five basis points in March to 13.74% while uncapped adjustable rates dipped 11 basis points to 12.12%.


FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices increased 2% in March to $234 per thousand board feet. It was the fourth consecutive monthly rise. The March price was 3% higher than a year earlier.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median price jumped nearly 4% in February to $79,500 from an upwardly revised January price of $76,500. The February price was 7.7% higher than a year earlier.

"Continued economic growth, rising employment, low inflation and modest energy costs all contribute to a healthy housing market," commented Lawrence Chimerine, chairman and chief economist of Chase Econometric Associates, an economic forecasting firm.

"When people feel confident about their jobs, they are more in a mood to buy houses."

At first glance, the mix of starts early this year held some surprises. The single-family sector accounted for all of the starts increase in January, but the situation was reversed the following month when multifamily starts jumped 25 percent. Overall, however, the mix of single-family and multifamily was in line with historical ratios.

"It wasn't so much that multifamily starts were high in February as that they were low in January," Harter explained.

The big question on everybody's mind is, "How long will the good times roll?" And that, of course, depends on interest rates which already are on the rise.

Secondary mortgage market rates began edging up in mid-February, and the VA rate and the prime rate both moved up half a point in March. The VA rate increased to 13 percent, highest since last October, and the prime rate rose to 12 percent, highest in more than a year.

Nevertheless, most economists expect the housing market to remain strong into the summer. They don't expect interest rates to become a major obstacle until after the election; in fact Harter believes rates could dip this summer before heading up again.

NAHB surveys show that builders expect exceptionally strong single-family sales through summer. Builders are less optimistic, however, about townhouse and condo sales, and they are very worried about the total sales picture for the end of the year, when rates may climb again.

Chimerine agreed that "we will see higher rates later this year and early next year." But unlike some other economists he doesn't think the rate hikes will be caused by credit tightening on the part of the Federal Reserve Board.

Housing starts shot past the 2 million mark earlier this year, but economists say that steamy pace can't last past summer.

"The Fed won't restrict credit," Chimerine predicted, "but it also won't accommodate rising private sector credit demands. And that will result in higher rates."

Carol Anderson, News Editor

FINANCE

HOMAC COURTS NAHB ASSOCIATE MEMBERS

HOMAC, NAHB's spin-off mortgage corporation, has opened up its membership to associate members of NAHB, apparently in an effort to boost enrollment.

Access to HOMAC's financing programs is expected to appeal primarily to two kinds of associates: financial institutions and real estate brokers, which together account for 13,800 NAHB members.

However, one of HOMAC's most important programs, a conventional mortgage commitment program, will not be available to associates due to difficulties with the Wall Street intermediary. That program, which was scheduled to be tested in six markets beginning last month, allows interest rates to be locked in up to eight months in advance.

Programs open to associates are the FHA-VA discount point cap commitments, which guarantee a maximum number of discount points on government-backed mortgages, and the FHA-VA builder bond program, which provides participants with direct access to the capital markets as well as significant tax advantages.

Altogether, HOMAC has issued $500 million in commitments since it went into operation in the fall of 1982.

In addition to the mortgage commitment program, HOMAC plans to introduce a conventional builder bond program this summer.

Although HOMAC is courting associates, builders will retain full control of the mutual corporation. Only they can vote.

FINANCE

FIRST-TIME BUYERS CLAIM RECORD MARKET SHARE

First-time buyers claimed a record 40 percent of the conventional housing market last year—up from only 14 percent two years ago.

That was one finding of a nationwide home buying survey released last month by the U.S. League of Savings Institutions. The survey analyzed 13,000 conventional mortgage loans (on both new and existing homes) originated during the first half of last year by 371 S&Ls.

The league attributed the surge in purchases by first-time buyers to lower interest rates—mortgage rates, including adjustables, averaged 12.2 percent in 1983 compared with 14 percent in 1981—the growing acceptance of ARMs, lower down payments and the large number of lower-priced existing homes on the market.

ARMs, especially discounted ones, helped the conventional mortgage market gain an even greater proportion of the first-time buyer market. Nevertheless, many first-time buyers went with FHA loans; they accounted for 66 percent of all FHA activity last year.

The survey also found that only 19 percent of the homes purchased with conventional mortgages last year were new, down from 26 percent in

HOUSE PRICES
(price distribution of conventionally financed homes purchased nationwide)

Price	1977	1979	1981	1983
Less than $30,000	18.6%	10.1%	6.9%	10.0%
$30,000-$49,999	43.8	27.9	16.9	20.8
$50,000-$69,999	22.7	28.6	24.4	24.5
$70,000-$89,999	9.4	17.1	19.2	16.8
$90,000 or more	5.5	16.3	32.6	27.8
Median price	**$44,050**	**$58,000**	**$72,000**	**$65,000**

Source: U.S. League of Savings Institutions

1981. Why? Dennis Klaeser, survey research associate with the league, believes it's because of the increase in the number of first-time buyers, buyers who tend to buy less expensive existing homes.

However, the percentage of new home sales fell among repeat buyers too, down from 27 percent in 1981 to 21 percent in 1983.

The influx of first-time buyers also reduced the median price of all home purchases financed by S&Ls by $7,000 to $65,000. That's a drop of nearly 10 percent between 1981 and 1983.

First-time buyers paid a median price of $54,500 for conventionally financed homes last year versus $58,900 in 1981. The median price paid by repeat buyers remained at $75,000.

Other survey findings:

- Existing homes purchased by first-time buyers were older last year; 46 percent of those homes were at least 25 years old compared with 36 percent two years earlier.
- A record 55 percent of all buyers made down payments of less than 20 percent last year.
- Median income required to buy the median-priced home declined from $39,196 in 1981 to $35,987 last year.
- Median income of repeat buyers rose to $41,347 from $40,197 during the two-year period while the median income of first-time buyers fell to $29,571 from $34,083.
- The median age of first-time buyers rose to 29.3 years in 1983 from 28.1 years in 1981 and 27.8 years in 1979. The median age of repeat buyers rose even more, to 38.3 years from 34.7 years in 1981 and 33.6 years in 1979.
- Home buyers tended to be more traditional household types last year. For example, 74 percent were married versus 70 percent in 1981.
- Two-income households accounted for nearly 54 percent of home purchases, up from 52 percent in 1981 and 47 percent in 1977, the first year the league conducted the survey.
- New homes were smaller last year. The median size declined from 1,667 square feet in 1981 to 1,536 square feet.
- The percentage of homes priced under $70,000 increased significantly between 1981 and 1983, but the largest single price category was $50,000 to $70,000 in both years.
- Homes were most expensive in California. The market with the highest median conventional home price last year was Los Angeles-Long Beach ($139,950), followed by Anaheim, Calif. ($125,018), Washington, D.C. ($120,600), San Francisco-Oakland ($120,074) and San Diego ($106,000).

DESIGN

NEW AMERICAN HOME SELLS ON FIRST DAY

Update on The New American Home.

The idea house built in Houston for the NAHB convention earlier this year and cosponsored by BUILDER (see December 1983 issue) turned out to be a hot item. It was sold the first day it was on the market, reported Bob Richter, general manager of Village Builders, the company that built the house.

After being toured by about 5,500 people during the nine days it was open in late January, the house sold in mid-February to an empty-nester couple. The selling price was $100,000, including approximately $25,000 worth of landscaping and decks.

The 1,500-square-foot, three-bedroom, two-and-a-half-bath home would sell for about $80,000 in most markets without the lavish exterior amenities.

Although building the house wasn't a breeze—a hurricane hit during construction causing about $12,000 in damage—Richter said he picked up design ideas to use in a new line of affordable houses. Such features as 9-foot ceilings on the first floor, luxurious master baths with whirlpool tub, innovatively shaped windows, steep gables and optional built-in bookcases helped sell nine units in two weeks, Richter said.

Photo: Copyright Robb Miller 1983

The New American Home, an idea house cosponsored by BUILDER, sold the first day it was on the market.

Designed by Booth/Hansen & Associates, Chicago, the idea house was sponsored by *Good Housekeeping* magazine and the National Council of the Housing Industry (NCHI), a group of manufacturer members of NAHB, in addition to BUILDER. A second idea house will be built in Houston in time for next year's NAHB convention. This one will be designed for the move-up market.

CONTINUED FROM PAGE 54

Traditionally, points are built into the interest rate and fee structure of a loan and accrue directly to the lender's bottom line as a reserve against future losses. The new loan would require the borrower to pay points, but it would identify them up-front as a risk premium and place a portion of the charge in an interest-bearing reserve account.

The borrower would own the account but pledge it at least two points to meet payment shortfalls over the life of the loan. (That two-point reserve is "critical to the success of the loan," said Kane.) If rates should rise at any adjustment period, more of the borrower's payment would be applied to interest and the excess portion of the payment would be added to the reserve fund. The loan balance would remain the same.

If rates rise so much that the monthly payment is not large enough to cover the interest, the lender would take the difference out of the reserve fund. Thus, the difference between the borrower's fixed monthly payment and the higher payment required under the adjustable feature of the loan would be paid from the reserve account, not out of the borrower's pocket.

If rates do not change, the loan is amortized at its stated rate and maturity. And if rates decline, the borrower continues making the same payments but only the principal and interest corresponding to the new rate are applied to the loan. The excess is added to the reserve fund. When the loan is paid off, whatever is left in the fund is returned to the borrower.

Thus, the reserve fund protects the borrower from increased payments in periods of rising interest rates and is a system of forced savings when rates are falling.

Kane and Christian spent three months running their loan through their computer. Even in worst-case scenarios, it performed fairly well. Between 1978 and 1981, for example, the worst period of interest rate volatility on record, the loan would have played out "remarkably well in several aspects," Kane said.

In that time, the 12-month average on the one-year Treasury bill rate jumped more than 5.5 percentage points. Although several years of interest-only payments would have been required under the new loan, a borrower's loan balance would have been only slightly higher than it would have been with a fixed-rate mortgage.

But the lender would have achieved his desired yield by drawing from the reserve account. And, even after six years, there would have been something left over for the borrower.

If he had taken out an uncapped adjustable loan indexed to the T-bill rate in 1979, his payments would have skyrocketed 40 percent. And if the loan had carried a payment ceiling, there would have been significant negative amortization.

The new loan is not without its drawbacks, however. It's difficult to explain, so it could be tough to market. Also, borrowers can't continue to make interest-only payments forever. If interest rates keep rising, the loan eventually must be renegotiated at a higher rate. But if that happens, at least the borrower can sink what's left in his reserve fund into his loan balance and trim his new payments a bit.

Later, when the loan finally is paid in full and the fund balance is returned to him, instead of having only nonliquid assets, the borrower will get some cash.

Lew Sichelman, a syndicated housing columnist

ECONOMY

RENTAL STARTS TO PLUNGE

Rental starts will fall at least 7 percent this year to an estimated 400,000 units, predicts Advance Mortgage Corporation.

Most of the decline will occur in Texas where Advance expects rental starts to plunge from 110,000 units in 1983 to 65,000 units this year. But even with the reduced level, Texas will provide 16 percent of all rental starts in the country this year.

The rest of the decline in rental starts is expected to take place in other Southern and Mountain region markets where starts should drop 6 percent to about 150,000 this year.

RENTAL HOUSING VACANCIES
(in percent)

	End of 1982	End of 1983
South	5.9%	7.3%
West	5.9	4.4
Northeast	4.1	3.7
Midwest	6.1	6.1

Source: Advance Mortgage Corporation

In the Northeast, Midwest and on the West Coast, however, rental starts should increase 16 percent to 185,000 units.

Still, rental construction will be heaviest in Sunbelt cities even though vacancies in a number of markets are high and rising while tight rental markets persist in the North and on the West Coast.

Vacancies in some Southern cities, notably Houston, San Antonio and Oklahoma City, are now as high as 20 percent, according to Advance.

Rental vacancies in the South as a whole jumped from 5.9 percent in the fourth quarter of 1982 to 7.3 percent in the fourth quarter of 1983, the Census Bureau reported. During the same period, the vacancy rate declined in the West and Northeast and remained unchanged in the Midwest.

Why the rush to build rentals in the saturated South?

"The bulk of new rentals are built to be sold to syndicators," noted Charles Wingo, executive vice president of Lomas & Nettleton Financial Group, owner of Advance Mortgage.

Syndicators and their investors along with lenders and builders "perceive Sunbelt markets as holding a persistent advantage in gaining employment and population," Wingo said. "There is a deeply held faith that no amount of building in these markets can be excessive over the long term. By contrast, the markets in the North and most of those in the West are seen as mature or declining."

What may stop the overbuilding is a tax change that Wingo said is certain to be considered by Congress this year. "If tougher tax treatment of accrued interest is enacted and made to apply from the date of introduction, syndicator buying will quickly slow down."

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The 18 units sold out last fall a month before construction was completed, according to Jim Manning, a principal in Manning Knapp Watson Architects and Planners, the Boulder firm that designed and built the project.

Priced from $46,500 to $51,000, the one-bedroom condos were a bargain in high-priced Boulder where, according to Manning, "virtually nothing is available below $60,000."

Half the buyers were young single professionals and half were university students and their co-signing parents.

The most striking feature of the project is the exterior design. Manning describes it as "traditional with a Victorian flavor." He said the project is designed to look like large estates.

Each of the three sections contains six units. Two of the sections are attached but offset about 8 feet, creating angled wall and roof lines. Such architectural details as dormers, fan windows, bay windows, gables, covered porches, decks and enclosed stair towers look Victorian, while white trim and railings help tie the elements together and give the project a clean, understated air.

Twelve of the units have bedroom lofts. The loft units, which on top floors feature skylights and fan windows, were by far the most popular, Manning said.

Other interior amenities include fireplaces, traditional molding, oak floors and more closet space than is found in most tiny units. Each condo has linen and entry closets and at least 8 feet of clothes closet in addition to basement storage. Some loft units have walk-in closets.

"I can't stress enough the importance of storage space in a 400-square-foot unit," Manning said. Another key to making tiny plans work is a tight circulation pattern. "We cut down circulation by using a pinwheel design with all the rooms coming off the entry."

Though affordability was the goal, energy efficiency was an important concern. Energy features include an active solar hot water system, R-22 walls, R-33 ceilings and individual electric metering.

A primary reason the condos are so small is that the city allows double density for a project with units no larger than 400 square feet. The Bridgford Place site is 100 by 140 feet, so project density works out to 56 units an acre. Hard construction costs totaled $41 a square foot.

Carol Anderson

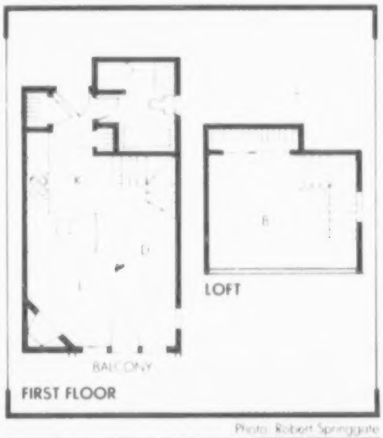
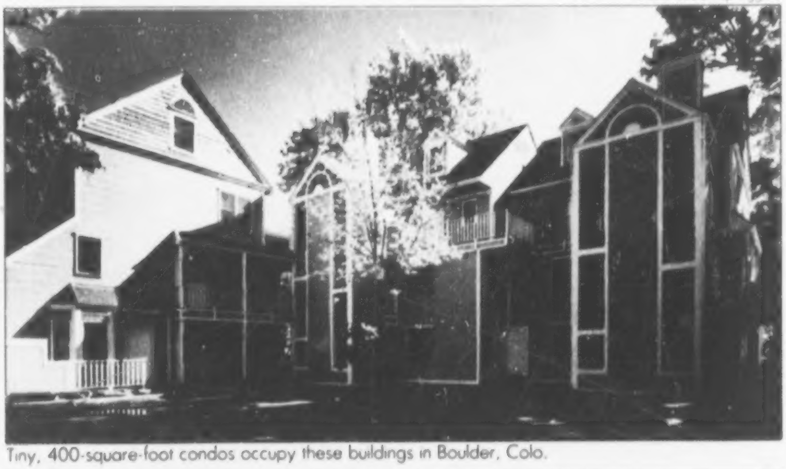


Photo: Robert Springgate



Tiny, 400-square-foot condos occupy these buildings in Boulder, Colo.

CONSTRUCTION

WATCH OUT FOR ACCIDENTS ON THE JOB

Accidents happen for one of two reasons: unsafe conditions or unsafe acts. We hear a lot about unsafe conditions, but they account for only 20 percent of all accidents on construction sites. All the other accidents are the result of unsafe acts.

These have many causes, such as improper attitude or distracting personal problems of workers, lack of knowledge or skill, unsuitability for the job and an improper work environment.

Reducing unsafe acts means providing better training and closer supervision for employees. It's all a matter of planning.

First, think about safety when budgeting. For example, if a job calls for hoisting concrete panels up the exterior of a building, it would cost less to use a small crane. But the crane could tip over. A large crane would cost a little more up-front but would eliminate the risk of an accident and might actually save money in the long run by getting the job done faster.

Next, consider safety when selecting subcontractors. Look at their safety record. It's tempting to go with the low bid, but the money saved could be peanuts compared with the cost of signing on with an accident-prone contractor.

Train all employees in safety procedures. They should know how to use fire and first-aid equipment. That equipment should be adequate for the job. It should be located in the right place, be easily accessible and up-to-date.

The people who give first aid should know what they are doing. If not, they could make the injury worse —which might lead to a lawsuit. And have a plan of action for each job site. Find the nearest hospital and determine how to get injured workers there.

The job superintendent must take the lead in loss control. A commitment should be made to on-site safety inspections. Someone should look at the site from a loss control point of view at least once a week—looking for worn or

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damaged equipment, frayed cords, improperly assembled scaffolding and other danger signs.

Finally, investigate all accidents thoroughly—even the near misses.

It's important to know what caused an accident. To find out, ask the same questions a reporter asks: who, what, when, where, how and why. "Why" is especially important. Why did this accident happen? Why was this particular piece of equipment used? Did the operator know how to use it? Why were these materials stored here?

The investigation should begin even while rescue operations are going on. After the cleanup, important evidence could be lost.

A thorough investigation probably could determine which unsafe condition contributed most to the accident. But all unsafe conditions should be corrected.

When the investigation is complete, file all the necessary reports. Do it quickly and completely. The first report of injury form is not enough. Also use an accident investigation form. While forms are a bother, complete data may make it possible to pass the costs of the accident on to others—to the manufacturer, supplier or subcontractor involved.

Also, the accident might involve a third party. Third parties can sue so be ready for possible legal action. Complete, accurate documentation is important.

ACCIDENTS IN HOME CONSTRUCTION

Type of accident	Percent of total
Struck by or against machinery/tools	27.8%
Overexertion	23.2
Fall	21.1
Muscular injury (not due to lifting)	6.3
Caught in, under or between	4.8
Abrasion	3.9
Contact with radiation or caustics	2.8
Contact with extreme temperatures	2.4
Accident involving motor vehicle	1.7
All other	6.0

Source: Bureau of Labor Statistics Supplementary Data System Based on 1980 workers' compensation records from 18 states.

Proper loss control means fewer accidents. Fewer accidents will keep valued employees working, save money on insurance, avoid lost production time and avoid the cost of replacing damaged equipment.

J. Philip Berggren, director of technical services for Aetna Life & Casualty, is a workplace safety expert.

SURVEY

HOUSES ARE GETTING BIGGER AND BETTER

The trend toward smaller houses may be over. Last year, for the first time since 1979, the median size of new single-family houses increased. And, in addition to being bigger, the houses had more amenities than those completed in 1982.

Those were major findings of surveys conducted by the Census Bureau and the Department of Housing and Urban Development.

The recently released survey results showed that single-family completions increased 46 percent in 1983 to 921,000 and completed multifamily units rose 24 percent to 464,000.

The median size of new houses last year was 1,565 square feet, an increase of 45 square feet or 3 percent from the year before. The opposite, however, happened with multifamily units. Their median size declined 3 percent to 895 square feet last year. The drop occurred because a greater proportion of multifamily units built last year were for rent—67 percent compared with 61 percent in 1982.

Of the new single-family houses completed last year proportionately more had two or more bathrooms, central air conditioning, a multiple-car garage and a fireplace. One characteristic that didn't change was the number of bedrooms. Most (59 percent) still had three.

Although electricity remained the primary heating fuel, servicing 49 percent of the new single-family houses built last year, the proportion of gas-heated houses rose to 44 percent from 40 percent in 1982.

FEATURES OF NEW SINGLE-FAMILY HOUSES

Features	Percent of houses with these features 1982	1983
Central air conditioning	66%	70%
Bathrooms		
1	22	18
1½	11	10
2	45	48
2½ or more	22	24
Fireplace(s)	54	57
Parking		
one-car garage	15	14
garage for two or more cars	50	54
carport	8	7
no garage or carport	27	25

Source: Census Bureau

As for the type of heating system provided, proportionately more houses were equipped with warm-air furnaces (56 percent, up from 53 percent) and electric heat pumps (29 percent, up from 26 percent).

Multifamily units built last year were more apt to have air conditioning (89 percent, up from 87 percent) but fewer bathrooms—33 percent of the multifamily units had two or more bathrooms, down from 36 percent the year before.

MARKETING

BUILDERS LET THE RADIO DO THE TALKING

"Stop" reads a simulated stop sign in front of a group of model homes in Columbia, S.C. "Tune your radio to 960 AM for information on houses in the Woodlands."

Visitors who tune in then get basic information about the project, price range, types of models, visiting hours.

Not only does the talking sign get people talking about the Woodlands,

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Marcus has had no problem finding tenants for the homes purchased by investors. Several of the new renters are job transferees from other cities who were reluctant to buy until sure the relocation would work out. And several others were wary of buying a mobile home but found the option idea a good way to give it a try.

For Marcus, the lease option "catapulted activity at the site. We finished phase one and are starting phase two," he reported. In all, he plans to have 58 units situated around a small lake.

Penelope Lemov

MARKETING

SAN DIEGO BUILDER PARES WASTED SPACE

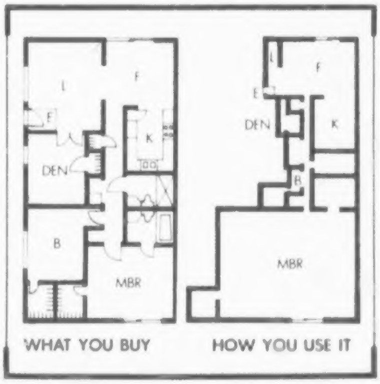
Homes are too big and San Diego builder William R. Effinger can prove it. He conducted a five-year study in San Diego and Orange counties that found more than a quarter of the space in a two-bedroom house is wasted.

For the study, 5,000 single-family homeowners and buyers, working couples under 40 without children or with one child at most, were interviewed about their use of space. This profile was used to create a hypothetical 1,200-square-foot house (see floor plan).

Effinger computed the amount of use each room received for a month. He then translated that use into a dollar amount by equating square footage with the monthly mortgage payments. He found that the wasted space cost nearly a third of the projected $1,212 monthly mortgage.

The living room ate up $190 of the mortgage and provided only $5 worth of use. Almost as bad was the den, which cost $84 and provided only $5 in use.

The second bedroom was a $128 extravagance providing only $3 worth of use, while the second bathroom cost $49 and received only $2 worth of use.



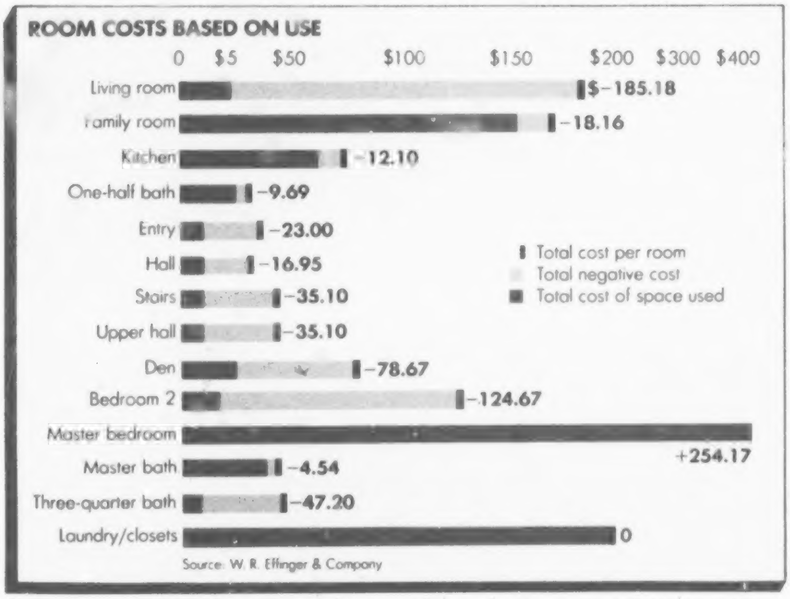
Laundry rooms and closets performed their functions 24 hours a day and were worth their cost, Effinger concluded.

Only the master bedroom earned a plus rating. Based on its size, the master bedroom accounted for $150 worth of the mortgage. But because it was used eight hours a day for sleeping and at other times for dressing, lounging and other activities, it got $250 worth of use.

President for seven years of Shapell Industries, San Diego, Inc., a building company, Effinger formed W.R. Effinger & Company to market his ideas about use of space. He devised several smaller but more useful floor plans, ranging from 315 to 812 square feet. The condos have high ceilings, multi-purpose rooms and no hallways. By using Murphy beds, fold-down dining tables and other in-the-wall furnishings, Effinger said he puts twice as much usage into his units as his competitors have in larger apartments.

Effinger plans to deliver nearly 500 of these $33,000 to $83,000 units this year to first and last-time buyers in San Diego. He also plans to build them in several other cities in the West and Texas.

Lew Sichelman



Source: W. R. Effinger & Company

The graph puts a dollar value on the use of space and shows that every room except the master bedroom is underutilized. The plans above show how space is actually allocated and how it might be allocated based on use.

SURVEY

THE AMERICAN DREAM HASN'T CHANGED

Not everybody agrees with William Effinger (see "San Diego builder pares wasted space" above) that houses are too big. While conceding that owning a home requires a lot of work and puts a strain on family finances, most households still aspire to the American dream of owning a traditional single-family detached house with lots of space and a private yard. That's the major finding of a study of consumer attitudes by the Housing Futures Group, a program of the Harvard-MIT Joint Center for Urban Studies sponsored by a group of 20 diverse organizations with interests in housing.

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And it raises some important questions: Are too many builders concentrating on smaller units built at higher density? Is the housing industry abandoning a large segment of the marketplace?

A preliminary assessment of the 20-page study, which drew a remarkably high response rate from the 5,000 households to which it was mailed, seems to indicate an affirmative answer to both questions.

(Half the recipients were owners and half were renters, and the sample was divided equally between those who had moved within the past three years and those who were longer-term occupants of their dwellings. In addition, the sample was divided among six demographic groups defined by age, number-of adults and the presence or absence of children.)

Of the 4,300 respondents who completed the survey late last year, more than 50 percent, and most often 60 percent or more, were very satisfied or somewhat satisfied with each of the 25 aspects describing their housing. However, the study found two "noteworthy areas of dissatisfaction"—20 percent were unhappy with their amount of interior space and 19 percent were disappointed with the amount of yard privacy or outside space.

Of those dissatisfied with their interior space, 18 percent were owners and 24 percent were renters. Dissatisfaction was highest among members of young households—30 percent of both owners and renters age 30 or under versus 6 percent of the owners and 8 percent of the renters age 65 or over.

"These responses," said William C. Apgar, Jr., and Julie B. Wilson, who prepared a preliminary assessment of the survey, "indicate that adequate interior space and yard privacy, two elements associated with the traditional single-family detached house, remain important concerns of today's consumers."

In addition, three of four respondents identified one or more rooms they thought were too small. Kitchens and baths most often were rated too small, with about a third of the respondents expressing dissatisfaction with the size of those rooms.

ATTITUDES ABOUT ROOM SIZE

Room	Percentage of respondents who think it is too small	Percentage of respondents who think it is too big
First bathroom	37.1%	0.6%
First bedroom	32.8	0.7
Kitchen	30.5	0.9
Dining room	25.0	0.7
Living room	23.0	2.4

Source: Harvard-MIT Joint Center for Urban Studies, *Housing Futures Consumer Survey*

Renters tended to be more dissatisfied with outside space than owners, but a significant number of each—14 percent of all owners and 28 percent of renters— were unhappy with the lack of privacy of their outside space.

This analysis, the survey authors believe, is an important first step in assessing the changes in housing that are likely to emerge as a result of changing demographics and the persistent housing affordability problem. "Whether down-sizing is the wave of the future depends not only on the cost of housing, but on how much households are willing and able to spend to acquire larger single-family detached houses. The concern expressed by survey respondents about the amount of interior space and exterior privacy suggests that despite affordability problems, households continue to aspire to the larger, detached house," Apgar and Wilson commented.

Reinforcing this conclusion are responses to questions concerning the respondents' future housing plans. While 29 percent of all households plan to move within five years, more than half of those who are unhappy with the interior space in their present home plan to move. Most likely to move, the study found, are the groups that expressed the greatest concern about both exterior and interior space—namely young singles, young couples and families with young children.

In describing their most likely new house, most respondents indicated they favor a detached house; despite the fact that a majority agreed that ownership takes a lot of time and 41 percent conceded that it takes two incomes to afford a mortgage at today's prices. Although interest in owning a detached house is highest among middle-aged households, 48 percent of renters age 30 or less believe they will own their own home within five years.

As could be expected, young and middle-aged households plan to move to larger, more expensive homes while older households are more interested in moving to smaller houses. Undoubtedly some young families will move into homes vacated by older families and the elderly will occupy the smaller units the young vacate. But only 5 percent of all the elderly households plan to move within five years while 53 percent of those under 30 and 37.3 percent of those in the 30 to 40 age group will seek to relocate.

The authors admitted that the affordability problem could force some young households to scale back their dreams, but noted that many young families who already own houses have the ability to move up. "The equity that many households have in their current home," they ventured, "represents an important financial resource that will enable many current owners, at least, to fulfill their aspirations and move into better housing in the future."

According to the survey, households that already own detached houses have accumulated equities of $51,787 on the average. Although equity build-up is greatest for those who have owned their homes the longest, the survey found that even among households age 30 or less the average equity is a healthy $32,151.

Although the housing recession of 1980-1982 had a marked effect on consumer confidence, the authors added, most families still regard a house as a sound investment. In 1983, buyers returned to the market in numbers few analysts predicted, indicating that the surge will continue.

Lew Sichelman

be Los Angeles, where Chicago Title predicts $2.6 billion in non-res construction will occur. The title company also predicts San Francisco will lead in new office construction, San Jose will top the industrial construction market and Dallas-Fort Worth will lead in retail store construction.

FINANCE

CALIFORNIA BOASTS THE BIGGEST S&Ls

When it comes to savings institutions, California is where the money is.

Of the 10 largest FSLIC-insured institutions in the country, the top seven are in California, according to a recent survey by the U.S. League of Savings Institutions.

The largest non-California institution in the top 10 is First Federal of Michigan. American Savings, Stockton, Calif., is the biggest S&L, with nearly $22 billion in assets at the end of 1983. It was formed last year when State Savings merged with American Savings.

TOP 10 S&Ls

Institution	1983 assets (in billions)
American Savings & Loan Stockton, Calif.	$22
Home Savings of America Los Angeles	20
Great Western Savings Beverly Hills	17
California Federal Los Angeles	14
Glendale Federal Glendale, Calif.	10
First Nationwide Savings San Francisco	8
World Savings & Loan Oakland, Calif.	8
First Federal of Michigan Detroit	8
Empire of America Southfield, Mich.	7
City Federal Elizabeth, N.J.	7

Source: U.S. League of Savings Institutions

OP
DA
DISCOVERY
HOM
SALES

A crowd gathers for the opening of a new phase of affordable detached houses in San Diego. All 29 units sold the first day.

MARKETING

BARGAIN HUNTERS FIND DISCOVERY HOMES

They're still camping out in San Diego.

A total of 18 families camped out at the Discovery project there in mid-March, some for up to a week, for the chance to buy single-family detached houses with affordable prices and below-market mortgage rates.

As a result, developer Walden Financial sold all 29 houses in phase two of the project by 3 p.m. the day the sales office opened.

"We expected a quick sellout, but 29 homes sold in six hours was truly surprising," said Debra Jones, vice president of marketing for the firm.

One attraction was a low, 10.25 percent, 30-year, fixed-rate mortgage provided by a city revenue bond program. Price was another draw, Jones said. The three and four-bedroom homes with two or two and a half baths sold for $77,500 to $94,000. The four plans range from a one-story with 1,070 square feet to a two-story with 1,585 square feet.

The Discovery development, located on 40 acres in the South Bay area, eventually will comprise 134 homes, according to the builder.

REMODELING

OLD FACADES STAY, NEW BUILDING GOES UP

Politicians are not the only ones in Washington, D.C., who play hardball. Utilizing provisions of one of the nation's toughest municipal preservation ordinances, Washingtonians have gone to court and won a number of battles to preserve old buildings.

As with politics, compromise dictates a final solution. In Washington, and more and more cities, facades are being preserved while new, and often far larger, buildings are constructed above and to the rear of the historic structures. This solution is designed to meet the needs of preservationists and developers too.

But it can require a great deal of ingenuity on the part of architect and builder.

Take Red Lion Row, a block-long grouping of 19th-century Italianate rowhouses along Pennsylvania Avenue not far from the White House. The bulk of the row was owned by an electrical contractor who began demolition in the fall of 1976 in order to sell an empty site to nearby George Washington University. That institution develops speculative office buildings at the perimeter of the campus as income-producing property.

Neighborhood groups and Don't Tear It Down, a Washington, D.C., preservation organization, had other ideas. A lawsuit halted the demolition, then protracted negotiations over the purchase and building design ensued. In July 1981, all parties agreed to a compromise solution that mandated preservation of the remaining rowhouse exteriors but allowed construction of a new, 10-story building to the rear.

The $45 million mixed-use project, called 2000 Pennsylvania Avenue, opened last September. The university, as a nonprofit institution, was

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Most major industries are dominated by a few giant companies. Home building isn't. Where General Motors and Ford claim control of more than 50 percent of the domestic automobile market, the two biggest home builders—U.S. Home Corporation and Lincoln Property Company—account for barely a 2 percent share of the home building market.

Nonetheless there is a move toward concentration and consolidation. Big builders are growing bigger and increasing their market share. Barbara Alexander, a housing analyst with Smith, Barney, Harris Upham & Co., predicted recently that the 400 or so largest builders would boost their market share from a third to more than a half by 1990.

In recognition of this, BUILDER is introducing a new, annual feature, the BUILDER 100, a listing of the 100 biggest builders in the country.

From number 1—Texas-based U.S. Home—to number 100—California's Fieldstone Company—the BUILDER 100 ranking is based on the number of housing units the companies built, the measure the housing industry best understands and most uses to measure success. All totaled, the BUILDER 100 built nearly 250,000 units, which means that just 100 companies built about one of every six houses built last year. Together, the companies controlled 15 percent of the total housing market.

The median number of homes built by BUILDER 100 companies was 1,400; the average, 2,489. A third of the BUILDER 100 companies built more than 2,000 units last year. The top five companies built more than 10,000 units each. Texas-based U.S. Home heads the list with 14,028 units, followed closely by Lincoln Property, 13,368; Pulte Home Corporation, 12,008; A.G. Spanos Construction, Inc., 12,000; and Ryan Homes, Inc., 10,620.

Of these top five, three concentrated on for-sale detached and attached housing; two built rental properties exclusively. The BUILDER 100 divides along similar lines: around 40 percent of the companies concentrated on for-sale housing, nearly 20 percent built rentals exclusively and about 40 percent were involved in both.

In addition to on-site home building, 89 BUILDER 100 companies have diversified their activities. Forty-nine manage property, 43 build commercial-industrial projects, 42 are land developers, 22 have mortgage financing divisions and 19 act as real estate brokers. Some venture far afield, publishing a magazine, operating a jetport, offering cable television services.

Eventually, their ranks may be joined by savings and loan institutions. Stan Ross, a partner with the Los Angeles consulting and accounting firm of Kenneth Leventhal & Company, observed that S&Ls are doing more with small builders right now but that several are developing the capability to build projects themselves. "They soon will be volume builders building in excess of 1,000 units a year."

While it is unlikely that big building companies will ever dominate this fragmented and decentralized industry, the 80s are nonetheless a time of change. But this is not the first time soundings about big builder growth have been heard.

"In the 70s we predicted large building companies would increase their market share, but that didn't happen," admitted Alan Wapnick, housing analyst for Dean Witter Reynolds, a Wall Street investment firm. "Money was available to small and large builders on terms that weren't markedly different." Wapnick looks to changes in the financial industry to give large builders an edge.

"They always had an advantage because of size and benefits of scale," he continued. "Now they have direct access to secondary markets. Not only can they raise mortgage money more easily but they can do installment sales and take advantage of other devices that defer tax obligations."

George Matters, president of U.S. Home, pointed to streamlined management as an important component of the new competitive edge big builders enjoy. "Historically, home builders have been undercapitalized, mom and pop operations with archaic management. As the financial side of the home building industry becomes more and more important, well managed, big building companies will be better able to utilize sophisticated financial instruments," he said.

Other changes in the industry encourage big builder growth. As there are more and more land-use regulations it takes more and more time to develop land, Matters pointed out. "It can take up to four years to fight land-use and zoning battles. Small builders may not have the carrying capital to hang in there."

Some big companies are growing bigger simply by being more aggressive. "The big companies clearly have a strategy to increase their market share. They're not doing large-scale development; they're doing more subdivisions, expanding their product line and, in many cases, increasing volume on a one-area basis," Ross observed.

As an example, Ross pointed to Orange County, California-based builder, William Lyon (number 43 on the BUILDER 100) as a company that isn't going into 20 different states but is getting bigger in its own backyard. Among BUILDER 100 companies, a third operated in only one state in 1983. Of these, 11 were in California, 10 in Texas, seven in Florida, three in Arizona, and one each in Oklahoma and Colorado.

But many BUILDER 100 companies are eager to move into new markets. C.E. Peck, chairman of the Ryland Group, Columbia, Md., stated flatly, "Multi-city home builders have an opportunity to gain market share. We intend to take advantage of that."

Most big builders won't move into new markets by buying up the competition. "Big builders can just as easily and for the same up-front costs build up a new market themselves," explained Smith Barney's Alexander. "Most companies prefer to use their home-grown talent that's been developed through their management program. That's better than bringing in people with a different style."

One major exception to that rule in 1983 was Denver-based M.D.C. Corporation (number 42 on the BUILDER

100) which moved into the Orlando and Phoenix markets by buying building subsidiaries of Olin Corporation that were operating in those cities.

As they flex their muscle, big building companies will inevitably squeeze others. But Ryland's Peck doesn't see the small builder as being adversely affected by big builder activity. "Consolidation is taking place and the cumulative market share of big builders will increase, but it will be evolutionary. There still are and always will be an awful lot of opportunities for small builders."

Echoing that sentiment, Merrill Lynch housing analyst Jonathan Goldfarb predicted that housing activity would expand in non-metro areas, "and big builders don't operate there, so there'll always be room for smaller builders."

The builders most likely to feel the squeeze are medium-size companies doing entry-level, lower-priced volume business—the same type of business big builders do—and those in the desirable markets where big builders are likely to enter. In 1983, 48 BUILDER 100 companies were active in Florida, 39 in Texas, 33 in California, 25 in Arizona and 24 in Colorado.

Other builders are not the only ones affected by an increase in market share by big builders. Manufacturers, particularly those who distribute through dealerships and distributors, may feel some dislocation. Pete Thornton, field sales manager for Cain and Bultman, Jacksonville, Fla., a distributing company for Jenn-Air, Kitchen Aid and Litton, noted that his customers have a hard time competing with other manufacturers' factory-direct sales to big builders.

Thornton noted that the fact that big builders build less expensive homes has an even more direct affect on his business. "We distribute high-end appliances. As the percentage of high-priced housing decreases, it affects our penetration. Percentage-wise, we're getting less business because the housing increases are in the low to medium price ranges."

What's bad news for some is good for others, and Wall Street looks kindly on the growth of BUILDER 100 companies. Thirty-one are publicly held—four of seven home building companies that went public in 1983 (BUILDER, November 1983) are BUILDER 100 companies. Wall Street experts believe more will go public as soon as home building stock prices rise. "Right now builders would rather raise debt capital and wait. But several will go public in 1985, right after the election," Ross predicted.

Alexander sees Wall Street receptive to such overtures. "Big building companies are financially respectable now. They used to be so highly leveraged there was always a fear of bankruptcy, but now they've gotten their acts together with good balance sheets."

Data for the 1983 BUILDER 100 was based, in part, on information collected by CMR Associates for the 1984 edition of its annual *Blue Book of Major Homebuilders.* The *Blue Book* provides business profiles of 2,600 large-volume building firms. To obtain a 1984 *Blue Book* send $125 to Blue Book, CMR Associates, 11-A Village Green, Crofton, Md. 21114.

MARKET SHARE

TOTAL UNITS: 248,970
1.7 MILLION UNITS NATIONWIDE

14.6% REPRESENTED

WHAT THEY BUILD

DETACHED FOR-SALE: 60 COMPANIES

ATTACHED FOR-SALE: 67 COMPANIES

RENTAL: 57 COMPANIES

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
1	**U.S. Home Corp.** 1800 West Loop South Houston, Tex. 77027 (713) 877-2311	Public/Guy R. Odom, *chmn.*, George H. Matters, *pres.*, *COO*	**14,028**	8,715	5,313	
2	**Lincoln Property Co.** 1800 Two Turtle Creek Village Dallas, Tex. 75219 (214) 521-8200	Private/A. Mack Pogue, *chmn.*	**13,368**			13,368
3	**Pulte Home Corp.** 6400 Farmington Rd. West Bloomfield, Mich. 48033 (313) 661-1500	Public/James Grosfeld, *chmn.*, *CEO*, C. Howard Johnson and William J. Pulte, *co-chairmen of exec. comm.*, Roy F. Krag, *pres.*	**12,008**	8,107	3,901	
4	**A.G. Spanos Construction, Inc.** 1341 W. Robinhood Dr. Stockton, Calif. 95207 (209) 478-7954	Private/A.G. Spanos, *chmn.*, *CEO*, Dean A. Spanos, *pres.*	**12,000**			12,000
5	**Ryan Homes, Inc.** 100 Ryan Ct. Pittsburgh, Pa. 15205 (412) 276-8000	Public/Malcolm M. Prine, *chmn.*, *CEO*, Steven J. Smith, *pres.*, *COO*	**10,620**	10,620		
6	**Jim Walter Homes** 1500 North Dale Mabry Tampa, Fla. 33607 (813) 871-4611	Public (subsid. of Jim Walter Corp.)/James W. Walter, *chmn.*, (Jim Walter Corp.), Joe B. Cordell, *pres.*, *CEO*, Thomas L. Hires, *pres.*, (Jim Walter Homes)	**8,706**	8,706		
7	**The Natl. Housing Partnership** 1133 15th St., N.W. Wash., D.C. 20005 (202) 857-5700	Public/George M. Brody, Jr., *chmn.*, *CEO*, Robert Bennett, *pres.*	**7,714**	574	810	6,330
8	**Oxford Development Corp.** 7316 Wisconsin Ave. Bethesda, Md. 20814 (301) 654-3100	Private/Leo E. Zickler, *pres.*, *CEO*	**6,850**			6,850
9	**Trammel Crow Resid. Companies** 2001 Bryan Tower Dallas, Tex. 75201 (214) 742-2000	Private/Danny Alberts, *managing partner*, Michael Crow, *partner*	**6,564**	91		6,473
10	**Weyerhaeuser Real Estate Co.** Bldg. QB2 Tacoma, Wash. 98477 (206) 924-3271	Private/J.W. Creighton, Jr., *pres.*	**5,750**	3,200	1,800	750

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$1,152	Ala., Ariz., Ark., Calif., Colo., Del., Fla., Ga., Idaho, Ill., Ky., La., Md., Minn., Miss., Mo., Nev., N.J., N. Mex., N.C., Okla., Pa., S.C., Tenn., Tex., Utah, Va., Wash., W. Va., Wyo.	Land development, manufactured housing, lumber/materials dealer, cement co.
$1,131	Nationwide	Property management, commercial/industrial construction
$863	Ariz., Calif., Colo., Fla., Ga., Ill., Md., Mich., Pa., Tex., Va., Wash., Wyo., P.R.	Mortgage financing
$550	Ariz., Calif., Colo., Ga., Kans., Nev., Okla., Tex., Wash.	Property management, commercial/industrial construction, investment banking, magazine, jet center
$598	Fla., Ga., Ind., Md., N.Y. N.C., Ohio, Pa., Va., Wash., D.C.	Component manufacturing
$302 (home building only)	Ala., Ariz., Ark., Fla., Ga., Ill., Ind., Kans., Ky., La., Md., Miss., Mo., N. Mex., N.C., Ohio, Okla., Pa., S.C., Tenn., Tex., Va., W. Va.	Mortgage/banking services, insurance services
$712	42 states, Wash., D.C., P.R.	Property management, repair/remodeling
$411	Conn., Fla., Ga., Ill., Ind., Ky., Md., Mich., N.C., Ohio, S.C., Tenn., Tex., Va.	Property management, mortgage financing, land investments, phone systems, cable TV services
$312	Colo., Fla., Ga., Mass., Okla., Tex., Va.	Property management, land development, real estate broker
$600 (est.)	Calif., Fla., Md., Nev., N.J., N.C., S.C., Tex., Wash., Wash., D.C.	Property management, commercial construction, land development, mortgage financing, insurance co., venture capital

U.S. HOME CORP.

With 14,028 starts, $1.15 billion in gross revenues and $27.6 million in net income (an increase of 128.2 percent over 1982) U.S. Home Corporation is number 1 in the BUILDER 100. And U.S. Home plans to stay there.

For the present, U.S. Home has earmarked two priority markets. "The major and primary thrust of our business today is the first-time home buyer; second is retirement communities," reported George Matters, president and chief operating officer.

For the first-time home buyer market, U.S. Home increased slightly the size of its single-family units last year. U.S. Home's mortgage corporation, which originated more than $302.8 million in mortgages in 1983, is trying a wide variety of programs to make homes affordable to more people. "We were the first in 1978 with mortgage-backed securities, and we try to stay in the forefront of that activity because that's the most important part of the home building business these days," Matters claimed.

U.S. Home will keep hammering away at this market through the use of off-site manufacturing. The company's newly acquired off-site capabilities—U.S. Home bought Brigadier Industries, a mobile home manufacturer, and Interstate Homes, a mobile and modular home manufacturer, in 1983—will allow the giant home building company to enter markets where the population is less than 200,000. These are markets that usually don't feel the presence of a volume builder, but Matters believes there are homes to be built and sold there. "Those areas are not conducive to normal on-site operations, but we can approach them through off-site and that's our growth and expansion area," he explained.

Ten years from now, U.S. Home's priorities will have changed. "Look at the demographics and you'll see the baby boom started in 1946 and ended in 1963. By 1992 the baby boomers will be empty-nesters," Matters noted. Therefore, U.S. Home, which already claims to be the nation's largest builder of adult-retirement communities, will move recreational adult communities into first priority position. First-time home buyers will be number two.

U.S. Home built Fairfax Landing in Houston for the first-time home buyer. The 1,180 to 1,350-square foot detached homes sell for $62,000 to $66,000

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
11	**The Ryland Group, Inc.** 10221 Wincopin Circle Columbia, Md. 21044 (301) 730-7222	Public/C.E. Peck, *chmn., CEO*	**5,491**	3,717	1,774	
12	**General Homes Corp.** 7322 Southwest Freeway Houston, Tex. 77074 (713) 270-4177	Public/Jeffrey P. Payson, *pres., chmn.,* Don Parr, *exec. v.p.*	**5,437**	4,837 (est.)	600 (est.)	
13	**Nash Phillips/Copus, Inc.** 6010 Brooks St. Austin, Tex. 78754 (512) 458-1141	Private/Nash Phillips, *chmn.,* Clyde Copus, *pres.*	**5,349**	3,610	683	1,056
14	**Centex Corp.** 4600 Republic Natl. Bank Tower Dallas, Tex. 75201 (214) 748-7901	Public/Frank M. Crossen, *chmn.*	**4,700**	Breakdown not available		
15	**American Continental Corp.** P.O. Box 29099 Phoenix, Ariz. 85038 (602) 957-7170	Public/Charles H. Keating, Jr., *chmn.*	**4,015**	3,050	965	
16	**Summers Associates, Inc. (Summers Companies)** 16800 Dallas Pkwy. Dallas, Tex. 75248 (214) 871-1987	Private/Carl W. Summers, *chmn.*	**4,000**			4,000
17	**American Diversified** 3200 Park Center Dr. Costa Mesa, Calif. 92626 (714) 641-6660	Private/Ranbir S. Sahni, *chmn., CEO*	**3,750**	50	150	3,550
18	**Gene Branscome Investments** 4721 Garth Rd. Baytown, Tex. 77521 (713) 420-5777	Private/Gene Branscome, Jr., *owner,* Herb McDonald, *exec. v.p.*	**3,600**			3,600
19	**Embrey Investments, Inc.** 750 E. Mulberry St. San Antonio, Tex. 78712 (512) 734-3342	Private/Walter M. Embrey, Jr., *pres.,* John A. Echols, *v.p., development,* Roger Bowler, *v.p., finance*	**3,400**		900	2,500
20	**Robertson Homes** 6653 Embarcadero Stockton, Calif. 95209 (209) 957-5981	Private/Barton R. Robertson, *principal*	**3,265**	547		2,718

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$400	Del., Fla., Ind., Md., N.C., Ohio, Pa., Tex., Va., Wash., D.C.	Mortgage financing, modular building, component manufacturing
$383	Fla., La., Tex.	Land development, mortgage financing, insurance/title co., architecture/interior design
$422	Tex.	Property management, commercial construction, land development, real estate broker, interior design
$1,200	Calif., Colo., Fla., Ga., Ill., Minn., Nev., N.J., Okla., Tex., Wash., Wash., D.C.	Commercial construction, cement co., oil and gas
$350	Ariz., Colo.	Commercial construction, mortgage financing, savings and loan co.
Not available	Tex.	Property management, commercial construction, land development
$422	Ariz., Calif., Colo., Fla., Ga., Ill., Mass., Mo., N.Y., Pa., Tenn., Tex., Wash.	Property management, land development, mortgage financing, real estate broker, rehab, syndication
$40 (est.)	Ariz., Colo., Fla., Okla., Tex.	Commercial/industrial construction, land development
$18	Ariz., Fla., Tex.	Commercial construction, land development
$150	Ariz., Ark., Calif., Okla., Tenn., Utah	

TOP 10 BUILDERS
DETACHED

COMPANY	UNITS
Ryan Homes, Inc.	10,620
U.S. Home Corp.	8,715
Jim Walter Homes	8,706
Pulte Home Corp.	8,107
General Homes Corp.	4,837
The Ryland Group, Inc.	3,717
Nash Phillips/Copus, Inc.	3,610
Weyerhaeuser Real Estate Co.	3,200
American Continental Corp.	3,050
Gemcraft Homes, Inc.	2,978

TOP 10 BUILDERS
ATTACHED

COMPANY	UNITS
U.S. Home Corp.	5,313
Pulte Home Corp.	3,901
Development Corp. of America	2,300
Weyerhaeuser Real Estate Co.	1,800
The Ryland Group, Inc.	1,774
Burg and DiVosta Corp.	1,400
Hovnanian Enterprises	1,400
The Harkins Group	1,347
Pacific Scene, Inc.	1,267
Wood Bros. Homes, Inc.	1,045

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
21	**Gemcraft Homes, Inc.** 9950 Westpark Houston, Tex. 77063 (713) 266-3611	Private/Bob Hutchins, *chmn., CEO*, Russ Hutchins, *pres.*, Frank Romero, *exec. v.p.*	**2,978**	2,978		
22	**Paragon Group, Inc.** 7557 Rambler Rd. Dallas, Tex. 75231 (214) 696-8000	Private/William R. Cooper, *pres.*	**2,968**		143	2,825
23	**Ray Ellison Homes, Inc.** 4800 Fredericksburg Rd. San Antonio, Tex. 78229 (512) 349-1111	Private/Ray Ellison, *chmn.*, John H. Willome, *pres.*	**2,860**	2,470	390	
24	**Wood Bros. Homes, Inc.** 55 Madison St. Denver, Colo. 80206 (303) 355-8000	Public (subsid. of City Investing)/ W.H. Tucker, *pres.*	**2,845**	1,800	1,045	
25	**Development Corp. of America** 2514 Hollywood Blvd. Hollywood, Fla. 33020 (305) 920-6600	Public (includes M.A.P. Builders, Inc.)/Alvin Sherman, *pres., chmn.*, Carl Palmisciano, *v.p.*, Rosalind Stanco, *v.p.*	**2,677**	377	2,300	
26	**PF West Inc.** 5995 E. Grant Rd. Tucson, Ariz. 85712 (602) 886-1304	Private/Joseph M. Friedheim, *pres.*	**2,500**			2,500
27	**Jagger Buzbee Co.** P.O. Box 13146 Austin, Tex. 78711 (512) 327-2900	Private/Sid Jagger, Bob Buzbee, *principals*	**2,495**			2,495
28	**Michael's Development Co., Inc.** 10 Grove St. Cherry Hill, N.J. 08034 (609) 665-2244	Private/Michael J. Levitt, *pres.*, Kenneth V. Price, *v.p., controller*	**2,332**			2,332
29	**The Law Co., Inc.** 345 Riverview Wichita, Kans. 67203 (316) 268-0200	Private/Richard M. Kerschen, *pres.*, Don R. Marvin, *sr. v.p.*, Kenneth L. Pruett, *sr. v.p.*	**2,290**		110	2,180
30	**The Hardesty Co.** 4606 S. Garnett Rd. Tulsa, Okla. 74146 (918) 622-3600	Private/Floyd Roger Hardesty, *pres.*	**2,136**			2,136

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$225	Tex.	Land development, mortgage financing, savings and loan co., advertising co., printing co., leasing co.
$106	Calif., Fla., Ga., Ill., Kans., Ky., Mo., N.C., S.C., Tenn., Tex.	Commercial/industrial construction
$160	Tex.	Commercial/industrial construction, land development, real estate broker, insurance/title co., component manufacturing, lumber/materials dealer, water co.
$405	Ariz., Colo., N. Mex., Tex.	Mortgage financing, manufactured housing
$150	Fla., P.R.	Mortgage/banking services
$108	Ariz., Utah	Property management, commercial construction
$110	Fla., Okla., Tex.	Property management
$84	Del., Fla., Ill., Ky., Md., N.J., N.Y., Pa., S.C., Va., W. Va., V.I.	Property management
$90	Colo., Fla., Kans., Okla., Tex.	Commercial/industrial construction, rehab, insurance/title co.
$8	Kans., Okla., Tex.	Commercial/industrial construction

DEVELOPMENT CORP. OF AMERICA

Development Corporation of America's stockholders have reason to be pleased this year. Not only is the company number 25 on the BUILDER 100 and ranked as the number one builder in southern Florida (based on starts and permits), but earnings in 1983 were $7 million—or $1.18 per share—despite the textile division's $4.6 million losses. (The division has since been sold.)

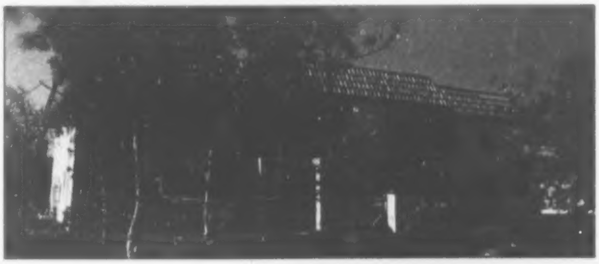
What pulled DCA through? The housing division posted $11.6 million in earnings, an increase of $10.2 million over 1982. Sales were up 46 percent.

"We've been growing like Topsy. We now have 44 active subdivisions in Florida and Puerto Rico. We're very, very busy," said Rosalind Stanco, vice president, director of marketing and a 15-year veteran with the company. It looks as if 1984 will be even better. In 1983 DCA had $53 million in backlog orders, but the company went into 1984 with $103 million in backlogs: That translates into 1,696 condo and fee-simple townhouse units.

DCA is after the first-time home buyer and retiree. The company's units are priced between $40,000 and $70,000, a range that both of these market segments can afford. DCA also has a mortgage company to provide competitive customer financing.

To attract customers, DCA uses an unusual marketing tool—a tabloid newspaper, *DCA Shopper*, which publicizes DCA floor plans, designs and project locations. It is distributed in Florida newspapers and at DCA sales offices. In addition, DCA advertises heavily in New York and New Jersey newspapers. "As long as we can get our product in the public mind and traffic to the sales office, our houses sell themselves. We underprice our competition in almost every area," Stanco noted.

Five years from now DCA would like to be Florida's largest builder, but expansion plans don't stop there. "We are always," Stanco reported, "looking to expand into other lucrative areas around the nation."



Priced from $40,000 to $50,000, DCA's Lucerne Lakes Golf Colony condos feature two bedrooms, two baths, patios or screened porches and access to the community's golf course, swimming pool, clubhouse and sun deck.

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
31	**Browning Property Co.** 4887 Alpha Rd. Dallas, Tex. 75234 (214) 980-0880	Private/Gordon D. Browning, *chmn.*, Charles W. McMurray, *pres.*, William A. Giles, *exec. v.p.*, Nicholas G. Mehl, *v.p., administration*	**2,117**		143	1,974
32	**Kaufman and Broad, Inc.** 10801 National Blvd. Los Angeles, Calif. 90064 (213) 475-6711	Public/Eli Broad, *chmn., CEO*	**2,091**	2,091		
33	**Lennar Corp.** 700 N.W. 107th Ave. Miami, Fla. 33172 (305) 559-4000	Public/Leonard Miller, *chmn., pres.*, Irving Bolotin, *sr. v.p., director*	**2,017**	461	956	600
34	**Genstar Corp.** 4 Embarcadero Center San Francisco, Calif. 94111 (415) 986-7200	Public/Angus A. MacNaughton, *chmn., co-CEO*, Ross J. Turner, *co-CEO*, George F. Michals, *exec. v.p.*	**2,005**	Breakdown not available		
35	**Pacific Scene, Inc.** 3900 Harney St. San Diego, Calif. 92110 (619) 299-5100	Private/Tawfiq N. Khoury, *chmn., CEO*, Russ R. Richard, *pres.*	**1,811**	544 (est.)	1,267 (est.)	
36	**Cimarron Co.** 7700 San Felipe Houston, Tex. 77063 (713) 783-4095	Private/Stanley Cameron, *chmn., CEO*, Robert E. Johnson, Jr., *pres.*	**1,776**			1,776
37	**First Southwest Equity Corp.** InterFirst Plaza Temple, Tex. 76501 (817) 773-1613	Private/Robert K. Utley III, *pres., chmn.*	**1,691**			1,691
38	**The Related Companies Inc.** 645 Fifth Ave. New York, N.Y. 10022 (212) 421-5332	Private/S.M. Ross, *principal*	**1,650**			1,650
39	**General Development Corp.** 1111 S. Bayshore Dr. Miami, Fla. 33131 (305) 350-1200	Public (subsid. of City Investing)/ Robert F. Ehrling, *pres., CEO*, Gerard P. Mozian, *sr. v.p., planning and finance*, Tore T. DeBella, *sr. v.p., marketing*	**1,643**	1,132	511	
40	**Mitchell Homes** P.O. Box 160306 Mobile, Ala. 36616 (205) 476-1200	Private/Mayer Mitchell, Abraham A. Mitchell, William A. Lubel, *owners*	**1,605**	322	420	863

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$99	Tex.	Property management
$560	Calif., France	Mortgage financing, life insurance, manufactured housing
$123	Ariz., Fla.	Commercial/industrial construction, land development, component manufacturing, mobile home parks
$420	Calif., Tex., Canada	Commercial construction, land development
$156	Ariz., Calif.	Commercial/industrial construction
$67	La., Okla., Tex.	Commercial/industrial construction
$77	Tex.	Property management, land development
$80	Colo., Conn., Fla., Mass., N.J., N.Y., Pa.	Property management, commercial construction, remodeling
$270	Fla.	Property management, land development, mobile home parks
$153	Ala., Fla., La., Miss.	Property management, commercial construction/development

TOP 10 BUILDERS
RENTAL

COMPANY	UNITS
Lincoln Property Co.	13,368
A.G. Spanos Construction, Inc.	12,000
Oxford Development Corp.	6,850
Trammel Crow Residential Companies	6,473
The National Housing Partnership	6,330
Summers Associates, Inc.	4,000
Gene Branscome Investments	3,600
American Diversified	3,550
Paragon Group, Inc.	2,825
Robertson Homes	2,718

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
41	**Jetero Corp.** 10900 Richmond Ave. Houston, Tex. 77042 (713) 785-8200	Private/R.A. Beeler, *chmn., pres.*, R.F. Beeler, *sr. v.p.*	**1,600**			1,600
42	**M.D.C. Corp.** 3600 S. Yosemite Denver, Colo. 80237 (303) 773-1100	Public/Larry A. Mizel, *chmn., co-CEO*, Emil Hecht, *v. chmn., co-CEO*, Michael A. Feiner, *pres., co-CEO*	**1,593**	668	541	384
43	**The William Lyon Co.** 19 Corporate Plaza Newport Beach, Calif. 92660 (714) 833-3600	Private/William Lyon, *chmn., CEO*, Dick Randall, *pres.*, James E. McNamara, *sr. v.p., chief financial officer*	**1,568**	915	653	
44	**Forest City Enterprises** 10800 Brookpark Rd. Cleveland, Ohio 44130 (216) 267-1200	Public/Max Ratner, *chmn.*, Samuel H. Miller, *v. chmn., treas.*, Albert B. Ratner, *pres.*	**1,476**			1,476
45	**Bill Milburn Co.** P.O. Box 9802-682 Austin, Tex. 78766 (512) 835-4466	Private/William O. Milburn, *principal, developer-manager*	**1,475**	1,395		80
46	**Noble Builders, Inc.** 10420 Plano Rd. Dallas, Tex. 75238 (214) 343-1452	Private/Ed Noble, *pres.*	**1,468**		520	948
47	**Centron** 855 106th Ave., N.E. Bellevue, Wash. 98009 (206) 453-5454	Private/James W. Summers, *chmn.*, William C. Summers, *pres.*	**1,465**		408	1,057
48	**Homewood Corp.** 6079 Northgage Rd. Columbus, Ohio 43229 (614) 846-3400	Private/George A. Skestos, *chmn., pres.*	**1,463**	310	101	1,052
49	**Lewis Homes** 1156 N. Mountain Ave. P.O. Box 670 Upland, Calif. 91786-0670 (714) 985-0971	Private/Ralph M. Lewis, *chmn.*, Richard A. Lewis, *pres.*, John Goodman, *chief financial officer*	**1,405**	980	357	68
50	**Barratt American, Inc.** 20 Executive Park Irvine, Calif. 92714 (714) 250-0447	Private (subsid. of Barratt Developments, PLC, Ltd.)/John Swanson, *pres., chmn.*	**1,400**	Breakdown not available		

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$63	Fla., Tenn., Tex.	Property management
$167	Ariz., Colo., Fla.	Property management, mortgage financing, real estate broker
$219	Calif.	Land development, venture capital
$265 (est.)	Ariz., Calif., Conn., Ill., Ind., Ky., Mass., Mich., N.J., N.Y., Ohio, Pa., Va., W. Va., Wash., D.C.	Property management, commercial construction, land development, mortgage financing, remodeling, manufactured housing, component manufacturing, lumber/materials dealer, do-it-yourself chain stores
$168	Tex.	Land development, real estate broker, land sales
$32	Tex.	Property management, commercial construction, land development, real estate broker
$25	Colo., Wash.	Property management, commercial/industrial construction, land development
$80	Fla., Ind., Ky., Ohio, Tenn., Tex., W. Va., P.R., V.I.	Commercial/industrial construction, land development
$166	Calif., Nev.	Property management, commercial/industrial construction, land development, real estate broker
Not available	Calif.	

The Kingsley at Green Valley Ranch in Denver is typical of M.D.C.'s high-end affordable housing: The unit has 2,020 square feet, three bedrooms, two and a half baths, vaulted ceilings, skylights and large oval tubs in the master baths. Prices start at around $95,000.

M.D.C. CORP.

M.D.C. Corporation is on the move. Net income increased by 92 percent in 1983, revenues rose 100 percent and Michael Feiner, president and co-chief executive officer of number 42 on the BUILDER 100, predicted the industry hadn't seen anything yet. "Last year was a pivotal year for us. We changed the breadth and scale of our activities and laid the foundation for future growth."

For starters, M.D.C. purchased two housing subsidiaries—Olin-American in Orlando and Cavalier Homes in Phoenix—from the Olin Corporation for $19.2 million. With the purchase, M.D.C., which had been active in Denver, enters two new markets. M.D.C. will not, however, try to dominate Orlando and Phoenix. "We're a profit margin-oriented company rather than a market share company. If we had a 3 to 4 percent share of those markets plus our share of our Colorado markets, we'd be building nearly 6,000 units a year. We're projecting $500 million in sales in three years," Feiner said.

M.D.C. also is changing to an affordable product. Lower cost detached homes and townhouses accounted for less than 15 percent of the company's total 1982 production, but it accounted for nearly 50 percent in 1983.

M.D.C. was even more aggressive in developing the investment and financial end of its business. The publicly held company raised $75 million by selling 7 percent notes and five-year warrants. Last December it formed First Nationwide Mortgage Corporation, a wholly owned subsidiary for the origination and servicing of home mortgages.

Last year, M.D.C. sold its share of a Denver area savings and loan institution for $4.3 million and, as 1983 drew to a close, reported progress in an agreement to merge Far West Financial Corporation, a publicly held California-based S&L of which M.D.C. owns nearly 10 percent, into a private company with M.D.C. as a leading partner.

"Our geographic expansion and product diversification, our emphasis on liquidity and our participation in mortgage-backed bonds provides us with the ingredients to make 1984 another record year," Feiner concluded.

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
51	**Hovnanian Enterprises** 10 Highway 35 Red Bank, N.J. 07701 (201) 747-7800	Public/Kevork S. Hovnanian, *chmn., pres., director*, Ara K. Hovnanian, *exec. v.p., director*	**1,400**		1,400	
52	**Burg and DiVosta Corp.** 10358 Ironwood Rd. Palm Beach Gardens, Fla. 33410 (305) 622-0652	Private/Clifford Burg, *pres.*, Otto B. DiVosta, *v.p.*, Betty DiVosta, *treas.*	**1,400**		1,400	
53	**Goldrich and Kest Industries** 5150 Overland Ave. Culver City, Calif. 90230 (213) 204-2050	Private/Jona Goldrich, *pres.*	**1,356**	29	220	1,107
54	**The Harkins Group** 12301 Old Columbia Pike Silver Spring, Md. 20904 (301) 622-9000	Private/Thomas P. Harkins, *pres., chmn.*, Joel H. Garrett, *v.p., sec.*, J.P. Blasecooke, *exec. v.p.*	**1,347**		1,347	
55	**Lieberman Corp.** 11970 Borman Dr. St. Louis, Mo. 63146 (314) 878-4111	Private/Harold G. Lieberman, *chmn.*, Alan L. Lieberman, *pres.*, David Lieberman, *treas.*	**1,308**	220	768	320
56	**Miles Homes, Inc.** 4700 Nathan Ln. Minneapolis, Minn. 55440 (612) 553-8300	Public (subsid. of Insilco Corp.)/ Herbert Kahler, *pres.*	**1,300**	1,300		
57	**Hunt Building Corp.** 4855 N. Mesa El Paso, Tex. 79912 (915) 533-1122	Private/W.L. Hunt, *pres., treas.*	**1,281**		453	828
58	**Mission Viejo Co.** 26137 La Paz Rd. Mission Viejo, Calif. 92691 (714) 837-6050	Public (subsid. of Philip Morris, Inc.)/Phillip J. Reilly, *pres.*	**1,275**	843	432	
59	**The Grupe Co.** P.O. Box 7576 Stockton, Calif. 95207 (209) 951-6660	Private/Greenlaw Grupe, Jr., *pres.*	**1,248**	87	54	1,107
60	**Mayer Group** 9171 Wilshire Blvd. Beverly Hills, Calif. 90210 (213) 274-5553	Private (affiliated with Coast Federal Savings)/Alan Casden, *pres.*	**1,224**	57	54	1,113

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$70	Fla., N.J.	Property management
$79	Fla.	
$101	Calif.	Property management (retirement communities)
$74	Md., Va., W. Va., Wash., D.C.	Commercial construction
Not available	Colo., Fla., Ill., Mo.	Commercial/industrial construction, land development, real estate broker, insurance, syndication
$50	Nationwide	Financing, building materials
$59	Ariz., Calif., N. Mex., Tex.	
$258	Calif., Colo.	Property management
$151	Ariz., Colo., N. Mex., Calif.	Property management
$97	Calif.	

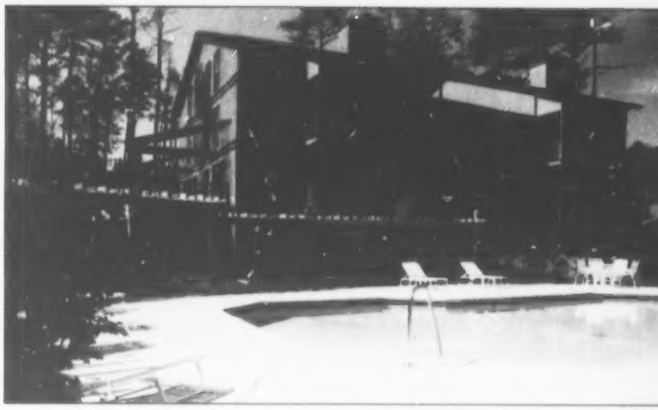
TOP 25 MARKETS

GEOGRAPHIC DISTRIBUTION

STATE	COMPANIES	STATE	COMPANIES
Florida	48	**Tennessee**	15
Texas	39	**New Jersey**	13
California	33	**Ohio**	12
Arizona	25	**Indiana**	11
Colorado	24	**Kentucky**	11
Georgia	19	**Washington**	11
Virginia	19	**Massachusetts**	10
Illinois	17	**New Mexico**	10
Oklahoma	17	**New York**	10
Pennsylvania	16	**Washington, D.C.**	10
Maryland	15	**Michigan**	9
North Carolina	15	**Missouri**	9
South Carolina	15		

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
61	**M/I Schottenstein Companies** 1855 E. Dublin/Granville Rd. Columbus, Ohio 43229 (614) 436-5600	Private/Irving Schottenstein, *pres.*, Melvin Schottenstein, *sec., treas.*	**1,200**	800	200	200
62	**Leon N. Weiner & Assoc., Inc.** 4 Denny Rd. Wilmington, Del. 19809 (302) 764-9430	Private/Leon N. Weiner, *pres.*, Joseph A. Singer, *v.p., rental operations*, Mark E. Weiner *v.p., chief financial officer*	**1,191**	20	58	1,113
63	**Jack W. Blumenfeld & Co.** 1500 Locust St. Philadelphia, Pa. 19102 (215) 735-0300	Private/Jack W. Blumenfeld, *pres.*, Alan Feingold, *exec. v.p.*	**1,163**		262	901
64	**Calibre Companies, Inc.** 5600 Roswell Rd. Atlanta, Ga. 30342 (404) 256-1576	Private/Edward L. Brinson, Douglas C. Mullins, Jack W. Morse, *partners*	**1,148**		721	427
65	**Amrep. Corp.** 16 West 61st St. New York, N.Y. 10023 (212) 541-7300	Public/Lawrence Perlmutter, *pres.*, Rudolph Skalka, *v.p., treas.*	**1,120**	1,000	120	
66	**Stokes and Co.** 4319 Salisbury Rd. Jacksonville, Fla. 32216 (904) 731-8170	Private/E. Chester Stokes, Jr., *pres.*	**1,116**	156	540	420
67	**Universal Development Corp.** 4810 Three First Natl. Plaza Chicago, Ill. 60602 (312) 726-1885	Public/Gary A. Rosenberg, *chmn.*, Bryant H. Prentice III, *pres.*, Richard C. Kraemer, *exec. v.p., operations*	**1,061**	549	512	
68	**Crain & Assoc. Devel. Co., Inc.** 4590 E. Grant Rd. Tucson, Ariz. 85712 (602) 323-3211	Private/John B. Crain, Jr., *pres.*, Jay DeBake, *v.p.*	**1,003**			1,003
69	**George Wimpey, Inc.** 1200 3rd Ave. San Diego, Calif. 92101 (619) 232-5885	Private (includes Monarch Homes Inc.)/Roy B. Ferris, *pres.*, (George Wimpey, Inc.), John Nickel, *pres.* (Monarch Homes Inc.)	**1,000** (est.)	1,000 (est.)		
70	**Gene B. Glick Co. Inc.** 9102 N. Meridian St. Indianapolis, Ind. 46260 (317) 844-7741	Private/Gene B. Glick, *CEO*, Max Thurston, *exec. v.p.*, Frank Basile, *v.p.*	**1,000**			1,000

GROSS REVENUES (in millions)	**MARKETS**	**DIVERSIFICATION**
$65	Fla., Ohio	Property management, land development
$55 (est.)	Conn., Del., Md., N.J., N.Y., Pa., Va.	Property management, commercial/industrial construction, land development, real estate broker, remodeling/rehab, syndication
$38	N.J., Pa.	Property management, commercial/industrial construction, land development
$70	Fla., Ga., N.C., Va.	
$50	Colo., Fla., N. Mex.	Commercial construction
$97	Fla., Ga., S.C.	Property management, commercial construction, mortgage financing, real estate broker, mobile home parks
$106	Ariz., Calif., Fla., N.C., S.C.	Property management, land development, mortgage financing, real estate broker, mobile home parks
$36	Ariz.	Property management, real estate broker
$100 (est.)	Tex.	Industrial development, land development, civil engineering
$120 (est.)	Fla., Ga., Ill., Ind., Ky., Mich., Minn., N.Y., Ohio, Pa., S.C., Va.	Property management, mortgage financing, insurance co., venture capital



This condo project—900 to 1,300-square-foot units priced at $70,000 to $90,000—is in Atlanta, but Calibre builds projects like it in Florida and metropolitan Washington, D.C., as well.

CALIBRE CO.

In seven years, Atlanta-based Calibre Companies, Inc., has gone from home building novice to number 64 on the BUILDER 100 chart.

The company had been in property management for 20 years when, in 1977, founding partners Doug Mullins, Edward Brinson and Jack Morse switched gears. "Property management is a way to make a living but we wanted to make money," Mullins recalled.

Calibre built 2,000 high-end multifamily rental units in three years. Then the company saw an opening in the first-time home buyer condo market, whereupon it built 200 $40,000 to $60,000 units in 1980, progressing steadily to 780 similar units in 1983.

The partners also believed that the path to $100 million revenues lay in expanding beyond their Atlanta market. "Our product is for the 30 to 34-year-old who lives alone and is making an income in the $30,000s. We looked around the country and defined where these people were," Mullins explained. First stop was Washington, D.C., followed, in 1983, by Tampa and Boca Raton, Fla., and Raleigh, N.C. By 1986 the company plans to be in 12 cities.

The person chosen to head the office in each new market becomes a partner, Mullins reported, and as such runs an autonomous unit. "Small, decentralized business units in various geographic areas represent the best way to achieve volume, sales and profit goals," Mullins claimed.

Calibre's condo revenues underscore Mullins's enthusiasm. They were $52 million in 1983 and Mullins projects $70 million in 1984. By 1985, Calibre hopes to reach the $100 million mark.

"We have the advantage of size in terms of reputation, credit worthiness and watching trends," he said of his company's management approach. "We have the advantage of a smaller company in our response to and flexibility in local markets. We're entrepreneurial within the company, and we like it that way."

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
71	**Vernon, James & Paul Smith Co.** 2929 Carlisle Dallas, Tex. 75204 (214) 559-0830	Private/Vernon S. Smith, Jr., Paul Smith, James W. Smith II, *principals*	**996**	360	36	600
72	**Ponderosa Homes** 1182 Business Center Dr. Irvine, Calif. 92715 (714) 476-2180	Public (subsid. of AETNA Life and Casualty)/James S. Dailey, *pres., CEO*	**994**	994		
73	**Pacific Union Co.** 3640 Buchanan St. San Francisco, Calif. 94123 (415) 929-7100	Private/H. William Harlan, Peter C. Stocker, John G. Montgomery, *principals*	**980**		980	
74	**Cenvill Development** Century Village, Admin. Bldg. West Palm Beach, Fla. 33409 (305) 683-4767	Public/H. Irwin Levy, *chmn., pres.*, Joseph D. Weingard, *sr. v.p., planning and corp. development*	**970**	120	850	
75	**Irvine Pacific Development Co.** 550 Newport Center Dr. Newport Beach, Calif. 92660 (714) 720-2600	Private (div. of the Irvine Co.)/ Roland Osgood, *pres.*	**960**	150	350	460
76	**Standard Pacific Corp.** 1565 W. MacArthur Blvd. Costa Mesa, Calif. 92626 (714) 546-1161	Public/Arthur E. Svendsen, *chmn., CEO*, Ronald R. Foell, *pres.*	**953**	953		
77	**Trafalgar Developers of Fla.** 275 Fontainebleau Blvd. Miami, Fla. 33172 (305) 223-5243	Public (subsid. of General Electric Co.)/Ramon R. Cacicedo, *pres.*	**944**	253	691	
78	**M.J. Brock & Sons, Inc.** 6767 Forest Lawn Dr. Los Angeles, Calif. 90068 (213) 851-6767	Public (subsid. of CIGNA)/M.J. Brock, Jr., *chmn.*, R.C. Chenoweth, *pres., CEO*	**930**	805	125	
79	**International Developers, Inc.** 1700 N. Moore St. Arlington, Va. 22209 (703) 558-7300	Private/Giuseppe Cecchi, *pres.*	**926**		926	
80	**Fairfield Communities, Inc.** 1207 Rebsamen Park Rd. Little Rock, Ark. 72203 (501) 664-6000	Public/C. Randolph Warner, Jr., *chmn., CEO*, Robert L. Callender, *v. chmn., treas.*, George F. Donovan, *pres., COO*	**925**	454	471	

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$32	Tex.	Property management, commercial/industrial construction, land development
$227	Calif.	
$60	Calif.	Property management, commercial/industrial construction, real estate broker
$84	Fla.	Property management, commercial/industrial construction, land development
Not available	Calif.	Property management
$135	Calif., Ill., Tex., Wash.	Land development, real estate broker
$96	Fla.	Land sales
$120	Calif., Colo	Land development
$101	Md., Va., Wash., D.C.	Commercial/industrial construction, land development
$185	Ariz., Ark., Colo., Fla., Ga., N.C., S.C., Tenn.	Property management, land development

RYLAND GROUP

Ted Peck, chairman and chief executive officer of the Ryland Group, number 11 on the BUILDER 100 list, describes his company as "a three-company company."

First, there's the traditional home building operation that started in 1967 and builds panelized homes on sites in 10 states. There are 27 home building divisions throughout the country; three Ryland-owned plants supply the panels.

Second—the result of a 1978 merger—is the Ryland Mortgage Company. "Mortgage banking," Peck pointed out, "is a profit center for us."

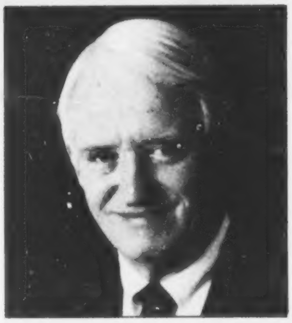
Third, and already showing a profit, is Ryland Modular Housing which the company started in 1982. The modules are, according to Peck, "look-alikes for our most marketable houses. They are customer proven." They are sold to smaller builders. "It's a new business for the small builder," Peck explained.

Ryland is positioned to play a major role in an industry where big builders seem destined to increase their market share. The company is moving into new markets in the South and Southwest and is working aggressively to increase market share in cities where it already builds. One means is to introduce a wider variety of housing.

"Our company is very conservative, and we have been slow to enter the townhouse market, but last year 35 percent of our homes were townhouses. We have a few condos in our mix and that's new for us," Peck reported.

Ryland serves a broad market, building homes ranging from $45,000 to $150,000. The company, like many other big companies that survived and are operating in the post-recession economy, is staying lean while it grows. Although Ryland did twice as much business in 1983 as 1982, the company added only 30 percent more personnel.

With 2,026 square feet including three bedrooms, two and a half baths and a two-car garage, Olympia is being built in Ryland's Midwest markets for the move-up home buyer. At $90,000, Olympia falls in the middle of Ryland's price range.



	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
81	**Allstate Homes, Inc.** 11300 N. Central Ave. Tampa, Fla. 33612 (813) 935-2111	Private/Peter A. Rutskin, *pres.*	**900**	450	300	150
82	**Melody Homes** 11031 Sheridan Blvd. Broomfield, Colo. 80020 (303) 466-1831	Private/W.H. Francis, Jr., *general manager*	**898**	867	31	
83	**Drexel Properties, Inc.** 2777 Stemmons Freeway Dallas, Tex. 75207 (214) 689-4280	Private/Bart McEntire, *pres.*, Doug Boettcher, *v.p.*	**882**		70	812
84	**John Crosland Co.** 145 Scaleybark Rd. Charlotte, N.C. 28209 (704) 523-8111	Private/John Crosland, Jr., *pres.*, Paul Leonard, *exec. v.p.*	**856**	346	510	
85	**Corcoran, Mullins & Jennison** 1 Heritage Dr. Quincy, Mass. 02171 (617) 328-3100	Private/Joseph E. Corcoran, *pres., principal*, Joseph R. Mullins, *v.p., principal*, Gary A. Jennison, *v.p., principal*	**830**		30	800
86	**Shapell Industries, Inc.** 8383 Wilshire Blvd. Beverly Hills, Calif. 90211 (213) 655-7330	Public/Nathan Shapell, *chmn., pres.*, David Shapell, *exec. v.p.*	**829**	650	179	
87	**George D. Thomas Builder, Inc.** 1530 Lee Trevino El Paso, Tex. 79936 (915) 592-0101	Private/G.D. Thomas, *pres.*	**812**	643	23	146
88	**Never Fail Builders, Inc.** P.O. Box 700540 Tulsa, Okla. 74170 (918) 299-8534	Private/Never Fail, Jr., *pres.*, Brian Fail, *v.p.*	**780**	20	548	212
89	**Amurcon Corp.** 26555 Evergreen Southfield, Mich. 48076 (313) 352-0202	Private/Barton M. Berman, *co-chmn., CEO*, Fred Erb, *co-chmn.*	**773**		773	
90	**Planned Resid. Communities** 60 Monmouth Park Hwy. West Long Branch, N.J. 07764 (201) 222-5062	Private/Robert M. Kaye, *pres.*, John Sauer, *v.p.*	**751**		480	271

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$25	Fla.	Property management, real estate broker, manufactured housing
$74	Colo.	Land development
Not available	Colo., Okla., Tex.	Property management, land development
$41	N.C., S.C.	Property management, land development
$84	Fla., Md., Mass.	Property management, commercial/industrial construction, land development
$192	Calif.	Property management, commercial construction, land development, mortgage financing, real estate broker, lumber/materials dealer
$35 (est.)	N. Mex., Tex.	
$37	Okla.	Land development
$35 (est.)	Fla., Mich., Va.	Property management, commercial/industrial construction, land development, repair/remodeling
$35	Del., Fla., Mass., N.J., Okla., Tenn.	Property management, commercial construction, condo conversions/rehab

DIVERSIFICATION

CATEGORY	COMPANIES
Property management	49
Commercial/industrial development/ construction	43
Land development	42
Mortgage/banking services (includes 2 S&Ls)	22
Real estate broker	19
Repair/remodeling/rehab	8
Insurance/title co.	8
Manufactured housing (includes 1 modular house builder)	6
Component manufacturing	5
Lumber/materials dealer	5
Land sales	4
Mobile home parks	4
Venture capital/investment banking	4
Syndication	3
Cement co.	2
Architecture/interior design	2

PUBLIC VS. PRIVATE

PUBLIC:	**31%**
PRIVATE:	**69%**
PUBLIC:	**103,152 units**
PRIVATE:	**145,818 units**

	COMPANY	OWNERSHIP/ LEADERSHIP	1983 HOUSING PRODUCTION			
			Total units	Detached for-sale units	Attached for-sale units	Rental units
91	**Flournoy Construction** P.O. Box 6566 Columbus, Ga. 31995 (404) 687-4301	Private/John Flournoy, *pres., land acquisition,* W.R. Jones, *sr. v.p., financing*	**750**			750
92	**Arvida Corp.** 5550 Glades Rd. Boca Raton, Fla. 33432 (305) 395-2000	Private/Charles E. Cobb, Jr., *chmn., CEO,* John W. Temple, *pres., COO*	**712**	234	458	
93	**Oriole Homes Corp.** 1151 N.W. 24th St. Pompano Beach, Fla. 33064 (305) 972-7660	Public/Richard D. Levy, *pres.,* A. Nunez, *sr. v.p., treas., director,* Eugene Berns, *v.p., sales and marketing*	**707**	50	657	
94	**Knoell Bros. Construction, Inc.** 2401 S. 24th St. Phoenix, Ariz. 85036 (602) 273-7101	Private/Frank E. Knoell, *chmn.,* Thomas E. Knoell, *pres.*	**704**	564	140	
95	**Edward Rose Bldg. Enterprises** P.O. Box 937 Southfield, Mich. 48037 (313) 352-0952	Private/Sheldon Rose, *CEO*	**700** (est.)			700 (est.)
96	**Frederick Development Corp.** 18 Brookhollow Dr. Santa Ana, Calif. 92705 (714) 549-4877	Private (subsid. of Pacific Lighting Corp.)/E.J. Hunter, *chmn.,* Ron Case, *exec. v.p.*	**699**	246	291	162
97	**Del E. Webb Development Co.** P.O. Box 1705 Sun City, Ariz. 85372 (602) 974-7011	Public (subsid. of Del Webb Corp.)/Fred Kuentz, *pres.,* Paul Tatz, *exec. v.p.*	**678**	472	206	
98	**The Weitz Corp.** 800 Second Ave. Des Moines, Iowa 50309 (515) 245-7600	Private/Fred W. Weitz, *pres., chmn.*	**677**			677 (life-care units)
99	**AmeriFirst Corp.** 13701 N. Kendall Dr. Miami, Fla. 33186 (305) 387-5050	Private (subsid. of AmeriFirst Federal S&L)/Richard A. Davenport, *pres.,* Samuel G. Benson, *v.p., marketing,* William W. Cole, *v.p., controller*	**652**	218	434	
100	**The Fieldstone Co.** 13 Corporate Plaza Newport Beach, Calif. 92660 (714) 851-8313	Private/Peter Ochs, *pres.,* Keith Johnson, *exec. v.p.*	**646**	516	130	

GROSS REVENUES (in millions)	MARKETS	DIVERSIFICATION
$21	Fla., Ga., Tenn.	
$320	Calif., Fla., Ga.	Property management, commercial/industrial construction, mortgage financing, real estate broker
$51	Fla.	Property management, commercial/industrial construction, land development, real estate broker
$47	Ariz.	Land sales
$100 (est.)	Ill., Ind., Mich., Mo., N.C., Ohio, S.C., Tenn., Va., Wis.	
$54	Calif.	
$365	Ariz.	
$102	Ill., Mass., Pa.	Property management, commercial construction
$75	Fla.	Land sales
$80	Calif.	

BILL MILBURN CO.

Bill Milburn's approach to home building is old-fashioned. "Keep it simple so everybody can understand it," is how he put it. Accordingly, Milburn's company uses what he terms simple—"A layman can understand it"—construction plans, sales programs and accounting methods. He keeps his staff lean and personally monitors the construction status of each of his houses daily via computer.

The Bill Milburn Company, number 45 in the BUILDER 100, has prospered under Milburn's approach. Starting as a small company building a dozen homes in Austin in 1961, it has grown into a diversified empire with $168.4 in gross revenues last year and a 30 to 40 percent share of a vigorous and booming local market.

Though Milburn's primary business is single-family affordable housing, he is branching out this year into multifamily units and building shopping centers and office buildings on land he subdivides and develops himself. He's also in the real estate business, with a sales force of 160 selling older houses and the products of other builders.

Milburn has a title and insurance company and mortgage company in hand as well as a grant for a one-person charter for a savings and loan.

Milburn also is expanding into component manufacturing, and will eventually build all houses using components. "Construction goes faster that way, so you can capture a greater percentage of the market. When a market's hot, you want to have merchandise to display. You're in a more competitive position," he explained.

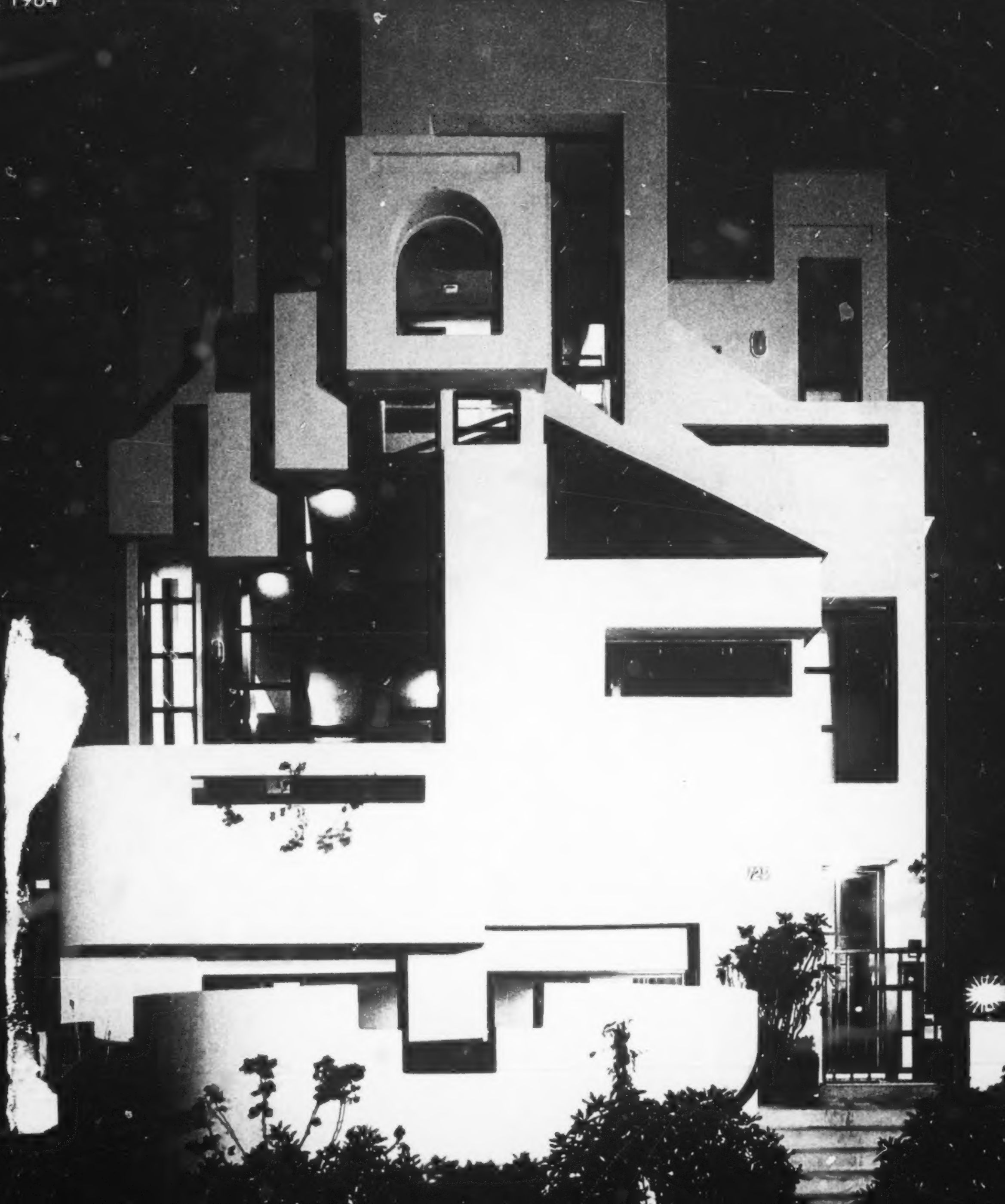
So far the move into factory building has had its difficulties. "There are growing pains. Even with two eight-hour shifts a day at our factory, we are struggling to meet 50 percent of our needs. To get up to 100 percent we'll have to retool and build more space," Milburn admitted.

One means of raising capital for such expansion purposes is to take the company public but Milburn professes a lack of interest. "I prefer," he stated simply, "to exercise the control I have right now."

Milburn builds the popular Rollingwood model for the move-up buyer at all his Austin sites. The 1,569-square-foot ranch house with brick or fieldstone trim sells for $81,500 to $89,600.

BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
JUNE 1984



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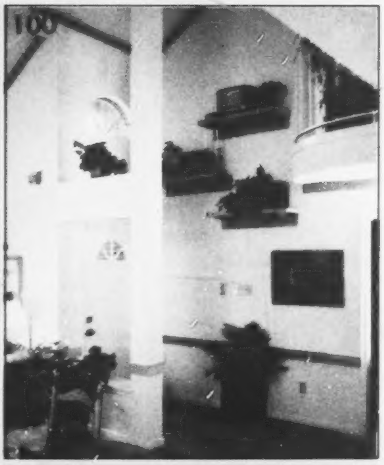


82—BEST FROM THE WEST

As always the winners of the Gold Nugget design contest, a western regional awards program cosponsored by BUILDER and the Pacific Coast Builders Conference, represent a rich lode of design ideas. But this year the California look of the winners is tempered by other design influences.

(Cover: Parrott residence, Marina Del Rey, Calif. Photo: Copyright Glen Allison Photography 1982)

100—SMALL LESSONS

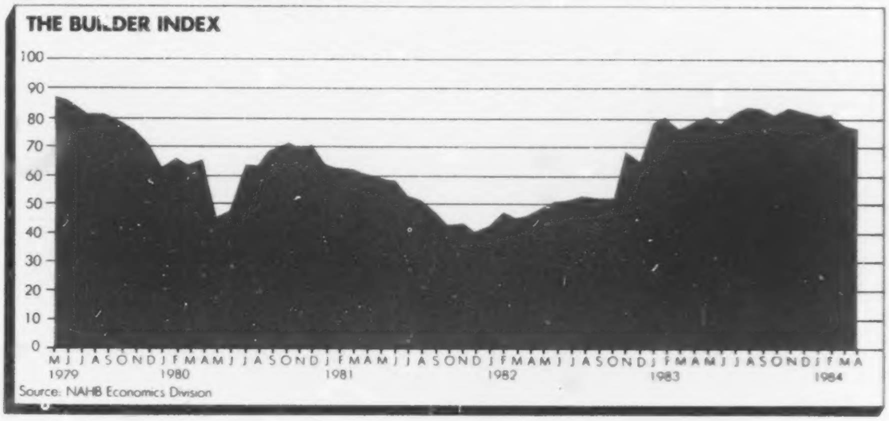
After much trial and error builders and architects have figured out how to make smaller houses live and look bigger.

110—PROJECT OF THE MONTH

Some builders worry about foreign competition. Not Seth Weinstein. He's importing high-tech, high-style manufactured housing from Sweden and using it to build first-rate projects like the Eagles of Sugarbush, a 16-unit time-share development in Vermont.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

For the second month in a row the BUILDER Index declined—this time by just more than 1 point—which indicates housing activity should trail off by the end of the year.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Positive Signs

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

In spite of recent increases in interest rates, housing will do well this year. Starts should reach 1.84 million units, about an 8 percent increase from the 1.7 million starts last year.

However, housing during the second half of this year won't match its performance in the first half. Still, if interest rates don't go much higher, housing may have enough momentum to make 1985 a good year as well. Of course that depends in part on Congress and the Administration getting government out of the capital markets and easing the pressure on credit.

Let's recap where we stand now. Available data for the first quarter shows housing starts running at an annual rate of 1.95 million, or about 15 percent above the same period last year. Just two years ago the average rate for the first quarter was only 884,000 units.

Yes, it's true that in March starts dropped by a record 27 percent. But for the most part that should be considered an aberration, not the start of a downturn. Because of unseasonably good weather in February, starts reached an annual rate of more than 2.2 million. But in March cold weather in the Midwest and the Northeast and rain along the entire East Coast caused starts to plummet to a 1.6 million-unit annual rate.

Despite that steep drop in starts in March, some 1.7 million building permits were issued, as many as in almost any other month during the current recovery. This means housing starts should be strong in the next few months.

But the March decline in starts should not be ignored. Part of the decline, probably a third, can be attributed to the increase in interest rates. Builders are less willing to start new homes when future sales are uncertain.

New single-family home sales increased by 8 percent in February to the second highest level since September 1979 and were expected to remain strong in March as well as April. The April BUILDER poll survey showed a continuation of strong sales. Half the builders surveyed reported that sales of new single-family homes were good to excellent, compared with 44 percent in March, 46 percent in February and 28 percent in December.

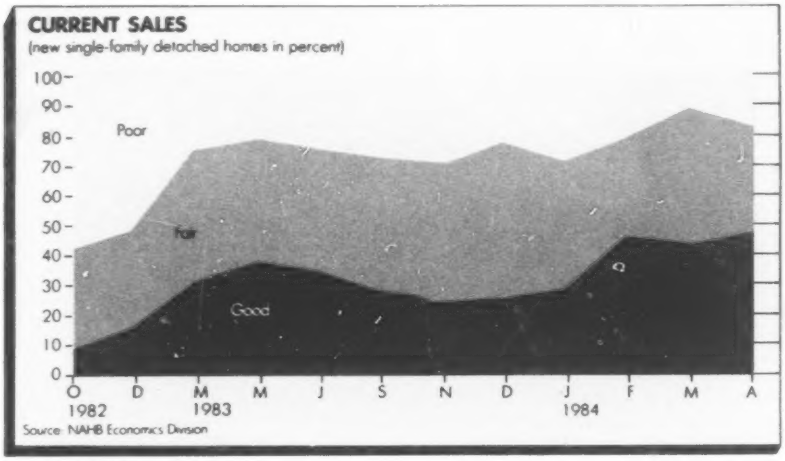
As sales took off during the first half of the year the unsold inventory of

CONTINUED ON PAGE 13

UNITS IN INVENTORY AT END OF RECOVERY PERIODS
(seasonally adjusted annual rate in thousands)

Month	1976	1977	1983	1984
January	312	354	257	304
February	308	357	261	301
March	320	359	262	
April	322	362	266	
May	331	364	273	
June	335	368	283	
July	338	375	289	
August	336	387	296	
September	340	388	299	
October	344	396	301	
November	349	400	307	
December	353	402	303	

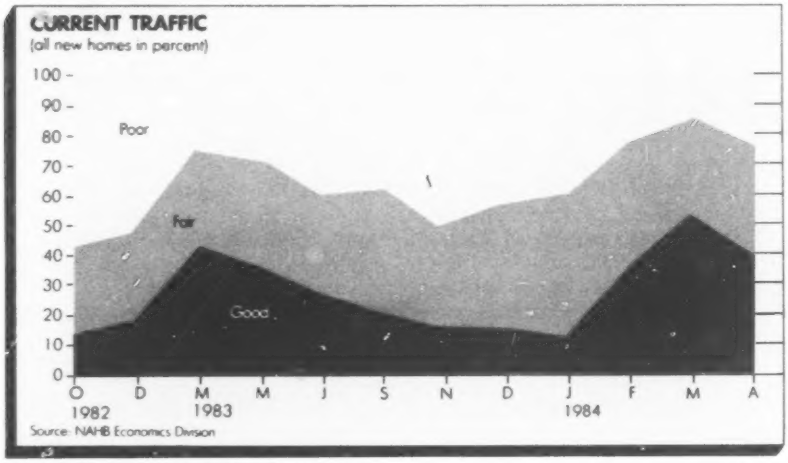
OUTLOOK/BUILDER POLL



CURRENT SALES

(new single-family detached homes in percent)

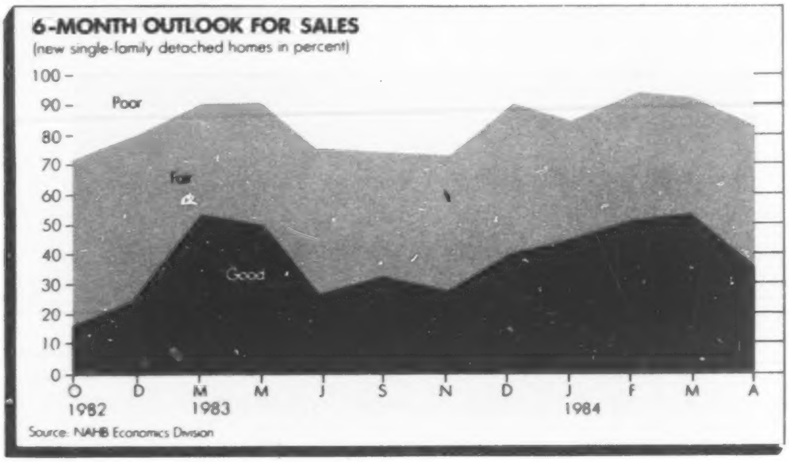
Source: NAHB Economics Division



CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

STILL BULLISH

Higher interest rates have lowered builders' expectations, but the April BUILDER poll still shows that builders are generally bullish. While sales of new single-family homes were still strong in April, expectations for the next six months turned down from March's peak.

Interest rates are the main concern. A Florida builder said, "The market is good and will remain so if interest rates do not price out the buyers." A builder from Akron, Ohio, said, "Worried about interest rate increases." There also is some concern among builders about availability of materials.

Nationwide about eight of 10 builders surveyed reported that new single-family home sales were fair to good and traffic of prospective buyers was rated as fair to good by three quarters.

There are significant regional differences in the rating of current sales as well as six-month sales expectations. In the Northeast, all the builders responding rated current sales as fair to good compared with 88 percent in the North Central, 80 percent in the West and 78 percent in the South. Builders in the West were the least optimistic—only 70 percent expected strong sales during the next six months—while those in the Northeast were most optimistic—83 percent expected strong sales.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the six-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

REAL ESTATE IS FLUSH

The enormous amount of money available will be the most important factor affecting the real estate market for the next few years, predicts Jay Kaplan, president of Consolidated Capital. Coming from many sources—banks, insurance companies, S&Ls, syndication firms, foreign investors and pension funds—the capital will contain "the seeds of our next over-building period," he said. Other Kaplan predictions: The real estate market will turn down in 1985, but there won't be a crash like in 1975; apartment rents will jump as much as 50% in the next two years due to renewed inflation and higher interest rates on single-family homes.

NONRES TO MAKE COMEBACK

Commercial and industrial building will make a comeback this year on the heels of the housing recovery, predicts George Christie, chief economist for the F.W. Dodge Division of McGraw-Hill Information Systems Co. But housing accounted for the near-record 23% gain in total construction contracting last year. The value of residential building contracts surged 57% in 1983; nonresidential building contracts gained a modest 4%; and public works and utility construction increased only 1%. Construction contract value jumped 32% in the Northeast, increased only 10% in the Midwest and gained 23% in the South and 28% in the West.

ARMs OVERTAKE MARKET

Adjustable rate mortgages accounted for more than 80% of all home loans made in the first quarter by savings institutions, according to a survey by the U.S. League of Savings Institutions. ARMs—in addition to plentiful mortgage money—helped savings institutions achieve a record first quarter mortgage lending volume. Loans totaled $34.7 billion, up 57% from the first quarter of 1983.

SYNDICATIONS THRIVE

Public real estate syndications raised a record $1.1 billion during the first quarter of this year, up 26% over the first quarter of 1983, according to Kenneth Leventhal & Company. "Although the industry should maintain strong money-raising momentum, its breakneck growth should slow somewhat this year with increased competition and changing tax laws," said company spokesperson Stephen Roulac.

LOS ANGELES IS NUMBER TWO

Los Angeles has overtaken Chicago and become the nation's second most populous city, reports the Census Bureau. (New York is still number one.) Between 1980 and 1982, the population of Los Angeles rose 1.8% to more than 3 million while Chicago's population declined slightly to just under 3 million. During the same period, Houston replaced Philadelphia as the fourth largest city. Houston's population grew by 8.2% to 1.73 million; Philadelphia's slipped by 1.5% to 1.67 million. Other cities in the big 10 are, in order: Detroit, Dallas, San Diego, Phoenix and San Antonio.

HOMEOWNERSHIP DECLINES

The homeownership rate declined again last year, but the downward trend has slowed, reports the Census Bureau. The rate fell from 65.6% in 1980 to 64.6% in 1983, with the biggest drop occurring in 1982. The decline each year since 1980 represents the first downward trend in homeownership since the agency began keeping quarterly records in 1962. However, the rates for each quarter in 1983 were no lower than the rate for the fourth quarter of 1982, indicating that the decline has leveled off.

CONTINUED FROM PAGE 11

new homes remained flat. Inventory is not the problem it has been in previous recoveries, when speculation brought inventory up sharply.

Existing homes sales are running about 18 to 20 percent ahead of last year and about 40 percent ahead of 1982. That's not bad considering the level of interest rates.

Another good sign is the drop in the number of unemployed construction workers: down to 776,000 in March from a peak of 1.2 million in October 1982. (Builders aren't reporting labor shortages, but in the most active markets, wages are increasing and subcontractors' bids are starting to increase.)

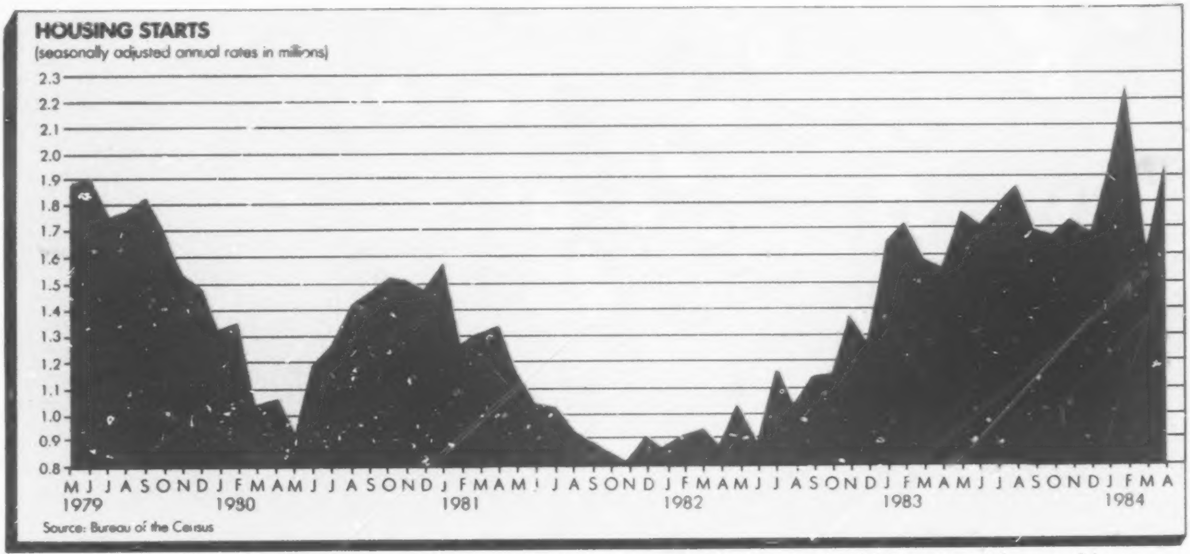
In a reversal of a trend that started in 1979, new home prices once again are increasing faster than inflation. In 1982 the median price of a new home increased by less than 1 percent, the smallest increase since 1963, when record-keeping started. During the 1970s, new home prices rose 162 percent compared with a 112 percent increase in the Consumer Price Index. However, through the first three years of this decade, the median sales price rose at an annual average rate of only 3.1 percent. The CPI increased 8.4 percent annually over the same period.

The April BUILDER poll showed that builders were less bullish than the month before, but expectations still are positive. This is particularly true in the single-family detached market, where 37 percent of the builder respondents expected sales to be good to excellent in the near future. Sales expectations for townhouses and condos were not as strong, but there are no signs of panic.

Traffic reported in the April poll continued to be high; in fact, higher than reported last spring, when the recovery seemed to be in full blossom.

In spite of housing's strength, interest rates are a concern. They are the lifeblood of the industry. Higher interest rates will affect housing sales. But with some luck, and a push from buyers (who are clearly there), we will get through 1984 in fairly good shape.

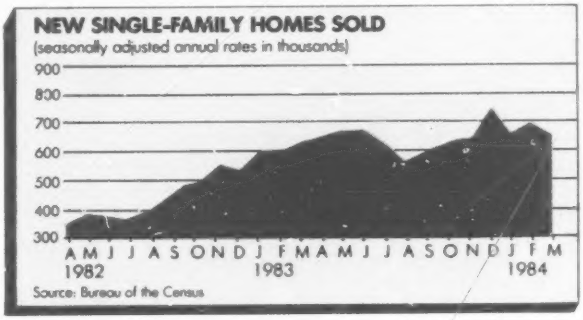
But be careful. Build in response to sales. Let's not end up with a glut of unsold units, like we did in 1979.



HOUSING STARTS
(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

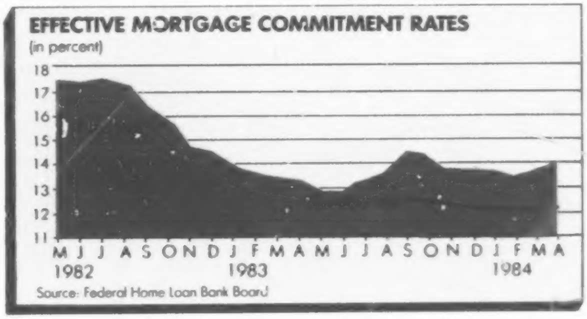
Starts jumped 19% in April to an annual rate of nearly 2 million. Multifamily starts, surging 41% to a rate of 815,000, accounted for most of the rise. Good weather and fear of rising interest rates contributed to the fast pace. April starts were 27% higher than a year earlier.



NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

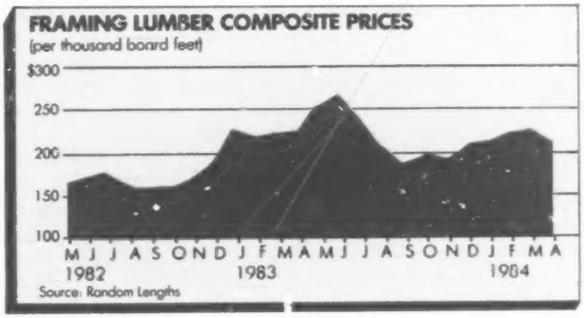
Sales declined by 5% in March to an annual rate of 666,000 from a downwardly revised February rate of 700,000. The March sales rate was still up 9% from a year earlier.



EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

Source: Federal Home Loan Bank Board

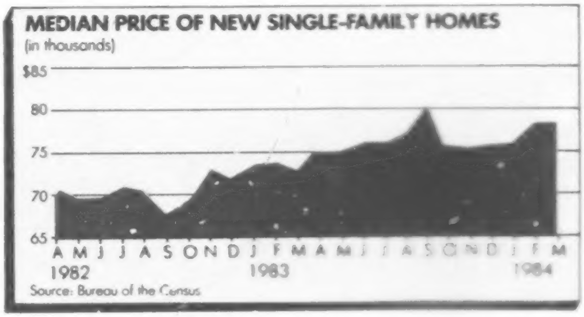
Mortgage rates are up. Commitment rates on long-term, fixed-rate mortgages jumped 26 basis points in April to 14.11% while uncapped adjustable rates climbed 19 basis points to 12.42%.



FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

Lumber prices dropped by 7% in April to $217 per thousand board feet. It was the first decline in five months. The April price was 5% lower than a year earlier.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median price remained unchanged in March from the revised February price of $78,700. The March price was 8.5% higher than a year earlier.

NEWS

ECONOMY

RISING INTEREST RATES SHADOW 1985

The three key questions on the minds of everyone in the housing industry are: Which way will interest rates go? When? And how much?

Despite economists' disclaimers that forecasting interest rates is as precise as predicting the weather, there is almost universal agreement that the answers are, respectively, up, this summer and by 50 to 100 basis points.

The general scenario calls for rising rates to level off in the fall then rise again after the Presidential election and keep rising through 1985.

Specifically, the NAHB forecast shows a prime rate of 12.5 percent by the end of this year and 13.75 percent by the end of 1985. Rates for 30-year fixed-rate mortgages will be 14.6 percent at the end of this year, then rise to 15.75 percent a year later.

David M. Jones, senior vice president and economist with Aubrey G. Lanston & Co., New York, sees rates rising faster but falling sooner. He forecasts a prime of 13 percent somewhere between June and September. Rates will then fall back to 12 percent by the end of the year, he predicted.

"That kind of rate will cool housing, if not by the fourth quarter, then by the first quarter of next year," he said, adding that he didn't see "a relentless, hopeless, inevitable rate climb." In fact, by next March he expects an 11 percent prime and 13 to 13½ percent mortgage rate.

The crystal ball at the Federal National Mortgage Association (Fannie Mae) conjures up stable rates for the remainder of this year. Timothy Howard, chief economist for Fannie Mae, noted that "interest rates are up an unprecedented amount for this time in a recovery," and he sees them rising even more—by as much as two points—next year.

The underlying reason for the gloomy forecasts is the looming clash between the federal deficit and the Federal Reserve Board's goal of preventing a resurgence of inflation.

"If the Federal Reserve Board were to try to limit rising interest rates now by increasing supplies of money and credit at an excessive pace, then the rise in inflation and later in interest rates would take an even larger toll," claimed Lyle Gramley, a member of the Board of Governors of the Federal Reserve Board.

Regardless of how and why interest rates rise, the important issue for home builders is how deeply rising rates will affect them.

"If conventional mortgage rates go above 14 percent and FHA above 13½ percent, it will shut down our sales considerably," predicted Bob Donaldson, financial manager for John Crosland Company, a Charlotte, N.C., builder with 1,000 starts last year.

"We'll suffer," confessed Gerald Strug, president of Gerald Builders of New Orleans, a company that built 50 houses last year. "If rates go up we'll be out of business."

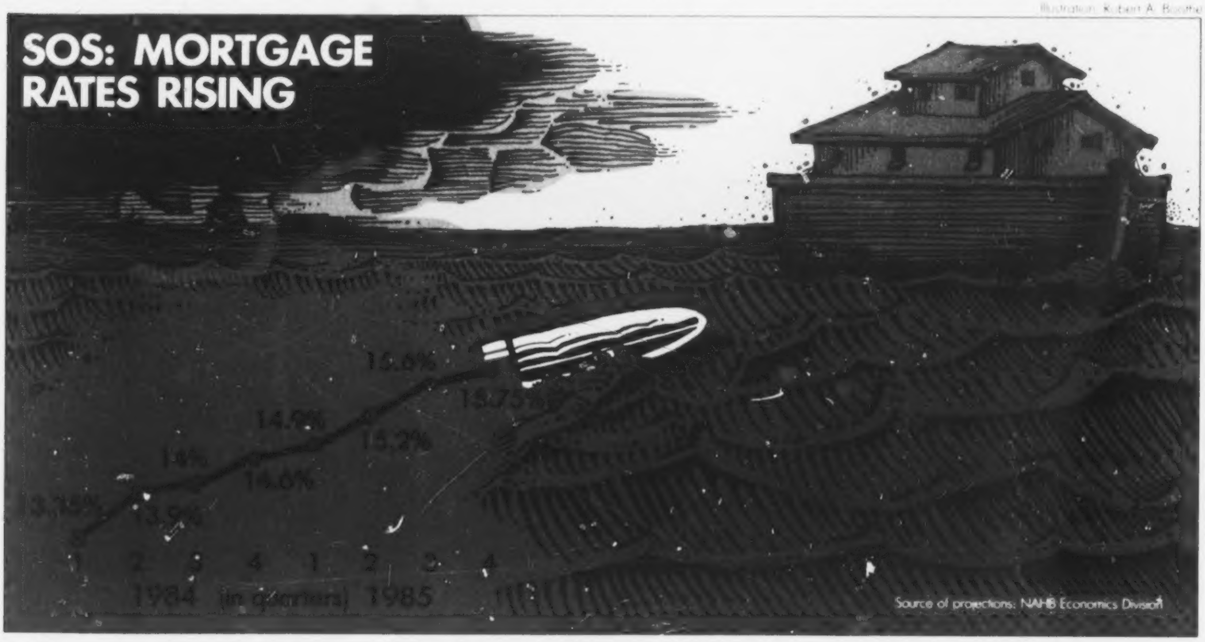
Looking at the industry as a whole, economists and analysts did not think the effect would be severe. "It's not going to be as bad as 1980 to 1982," Michael Sumichrast, NAHB's chief economist, told an April NAHB conference.

So far, the gradual interest rate increases of the first quarter haven't hurt at all. Sales were solid and starts were running 27 percent higher than the first quarter of 1983.

One reason was a buying spree triggered by those who feared interest rates would go up even more. These consumers tended to be young, first-time buyers. "To some extent, this is borrowing from next year's demand," pointed out Kenneth Rosen, chairman of the Center for Real Estate and Urban Economics at the University of California at Berkeley.

Illustration: Robert A. Boothe

SOS: MORTGAGE RATES RISING



Source of projections: NAHB Economics Division

Housing also has been somewhat insulated from interest rate rises because mortgage rates haven't moved in lock step with the prime rate. Spreads between the two have been bigger and more varied than usual, with mortgage rates not rising as fast.

One explanation is that there's been an extraordinary amount of mortgage money available.

"Lenders [savings and loan institutions] had $107 billion in net new deposits plus interest credited in 1983—up from $35 billion in 1982," Rosen said.

Large purchases by institutional buyers in the secondary market also have been keeping fixed-rate mortgages from going up much. And builder bonds have helped increase the amount of money available for housing.

But "this ability for the housing market to cushion itself is over," confessed Fannie Mae's Howard, explaining that the return to investors on mortgage-related investments is dependent on interest rate stability.

While investors may ease out of the mortgage market, savings and loan funds may also taper off. The mortgage kitty was unusually large in 1983 because of a one-time recouping of funds lost to money markets—some $42 billion—and broker deposits—some $5.2 billion—which since have been cut off.

"As interest rates go up, initial rates on ARMs will increase, too, so ARMs won't be a panacea," commented Joseph Hu, vice president and economist with Salomon Bros., a New York City investment firm.

This could have a direct effect on builders because the initial year discount functioned as a buy-down. In other words, many builders found that the ARM rate obviated the need to buy down their buyers' mortgages. But, as the initial rates rise, builders may, once again, have to offer buy-downs.

U.S. Home Corporation, Houston, already is preparing for a down cycle.

"We're reacting conservatively," admitted Isaac Heimbinder, senior vice president and chief financial officer of U.S. Home. "We're better prepared for a downturn than an upturn. We haven't added people, we're not building speculatively, and we're not taking long, aggressive positions with respect to land and development."

From his perspective, the greatest danger to home builders lies not so much in higher rates as unstable rates.

Bob Donaldson noted that the Crosland Company had healthy backlogs of sales in both the first-time and move-up markets so was set for this year. The company will enter a new market in Myrtle Beach, N.C., next year.

"Those are retirement homes and interest rates are less of a concern in that market," he said.

Arthur Rutenberg, president of Arthur Rutenberg Corporation, Clearwater, Fla., a company that built 500 homes last year, noted that he has always tried to "bullet-proof" his company against interest rate concerns.

"We work in sections of the market that are least sensitive to rate increases—we avoid the first-time buyer with family. When interest rates are up, we become more aggressive on price. We make less money but we try to hold volume."

Stan Ross, a partner with the Los Angeles-based accounting firm, Kenneth Leventhal & Company, has advice for builders who want to protect themselves in the soft, 1985 market.

Turn inventory on a higher velocity basis for the remainder of this year—even if it means lower margins.

Increase the number of presales.

Refinance longer-term properties this year.

Penelope Lemov, Business Editor

ECONOMY

ECONOMISTS EXPECT 1985 HOUSING DOWNTURN

The second half of 1984 will be healthy for housing but watch out for 1985.

That was the consensus of economists and housing analysts at NAHB's semiannual residential construction forecast conference held in late April. They predicted housing would take a slight downturn in the fourth quarter of 1984 then the dive would steepen as 1985 progressed.

"Now's the time to take advantage of what you have, because if you haven't sold your houses by election time, you may not sell them. I wouldn't make exciting plans for 1985, either," warned Kenneth Rosen of the University of California at Berkeley.

Dean Crist, research economist for NAHB, was equally gloomy. He predicted that prices would rise, personal income slow down and unemployment pick up and reach 8 percent in 1985.

Lyle Gramley, a member of the Federal Reserve System Board of Governors, addresses NAHB's Economic Forecast meeting.

"Housing will be squeezed," he told the conference.

While Crist expected total housing starts this year to be 1.82 million, up 7 percent over 1983, he predicted 1985 starts would be 1.52 million, with the annual rate running at only 1.3 million by the fourth quarter of 1985.

According to statistics Crist presented at the conference, single-family starts would fall off 15.5 percent in 1985, after being up 12 percent in 1984. Multifamily starts, which were 635,500 in 1983, should slip to 625,100 in 1984 and to 511,700 in 1985, a drop of 18 percent.

The NAHB forecast calls for the market to be weakest in 1985 in the North Central region. The western markets also would suffer sharp declines; the drop in the Northeast and the South would be less severe.

Mobile homes, which Crist posted

at a healthy 289,400 shipments in 1983, were predicted to reach 330,200 in 1984 and dip to 298,900 in 1985.

Existing home sales will hold up this year, Kenneth Kerin, vice president, economics and research, National Association of Realtors, reported to the conference. Nearly 3 million existing houses sold in 1983, a giant step over 1982's 2 million. Sales this year, he predicted, would be a respectable 2.5 million but 1985 would be a poor year.

"I see 1986 as the year of improvement," he said.

The main factor behind the overall gloomy forecast—and Topic A on every speaker's list—was the huge budget deficit. The economists claimed the deficit not only affected interest rates (see previous story) but was just too big for the economy to handle.

"The deficit this year will be $193 billion," predicted Lyle Gramley, a member of the Federal Reserve System Board of Governors, pointing out that that was 5¼ percent to 5½ percent of the gross national product.

"Political negotiations over a down payment on the deficit are serious but the magnitude being discussed for the near term is small in relation to the size of the problem," he continued. "A 25 percent to 30 percent reduction in 1985 is less than 1 percent GNP."

But, Gramley emphasized, a down payment is needed urgently—more as an act of good faith than as a remedy.

"Don't expect a dramatic change until larger steps are taken," he told the conference.

Several economists predicted when those steps would occur.

"The problem won't be solved right now," suggested George Perry, senior fellow at the Washington, D.C.-based Brookings Institution. "1985 is the year when serious reduction of the deficit will be a number one priority, and it may mean serious tax reform."

Timothy Howard, vice president and chief economist at the Federal National Mortgage Association, was even more specific. He saw the critical period—"a window will open"—to make structural changes in the budget as being between January and mid-1985.

Part of the political problem in reducing the deficit, Howard pointed out, is that the public believes the deficit can be cut with defense cuts and elimination of waste and fraud, but he said those moves would hardly make a dent.

The direction in which the Administration and Congress is heading in order to solve the deficit problem might not be good for the real estate and home building industry, Kerin noted.

"There's been a change in attitude toward housing by this Administration. Housing is no longer a favored product or a priority.

"The housing/real estate industry is being asked to pay a high share of the deficit down payment with depreciation changes and possible changes in the tax code that would eliminate mortgage deductions."

On a more positive note, the economists and analysts agreed that inflation was under control for now. A critical issue in 1985, as Gramley saw it, was whether the economy could avoid the inflation treadmill. From 1960 through 1980 each business cycle has had an inflation cycle higher than the previous one, he explained, noting that "monetary policy must make sure that that doesn't happen and, so far, monetary aggregates are within targets."

Penelope Lemov

HOUSING STARTS
(in thousands)

Region	1983	1984 forecast	1985 forecast
U.S. total	1,703	1,821	1,523
Single-family	1,067	1,196	1,011
Multifamily	636	625	512
Northeast	168	226	205
Single-family	123	166	144
Multifamily	45	60	61
North Central	218	208	128
Single-family	154	157	91
Multifamily	64	51	37
South	935	983	917
Single-family	557	636	620
Multifamily	378	347	297
West	382	405	272
Single-family	234	238	156
Multifamily	148	167	116
Mobile homes	289	330	299

Source: Census Bureau, NAHB Forecasting Service

DESIGN

LAKE FAIRWAYS SCORES WITH SMART LANDSCAPING

Four years ago Indian Pines was a small mobile home park stuck in the West Florida swamps. Without water or sewer service, its only improvement was a funky wigwam stationed out front.

Today, the pines remain. But that's about all Lake Fairways—an adult community on 300 manicured acres—and its predecessor on the Fort Myers, Fla., site have in common.

Now, an 18-hole golf course and 17,000-square-foot clubhouse are framed by nearly 30 acres of manmade lakes. Almost half the community's 955 manufactured houses have been sold. Another 200 sites are under construction. And plans are under way for expansion to an adjacent 360 acres.

The turnaround came when Getty Oil, already involved in the project through a subsidiary company, teamed with Lan Ron Builders, a Newport Beach, Calif., developer. Before sales started, $7.5 million was pumped into the project. Another $7.5 million is targeted for completion.

Key to the makeover is a revised

CONTINUED FROM PAGE 46

newsletter about activities at the site. Copies of advertisements were sent to the brokers so they could see what approach the developers were taking. Every time a unit sold, the brokers were sent a letter indicating when the sale took place and for how much.

"These efforts reinforced the fact that Beechwood is a successful, viable development in the community," Lamondin noted.

Marketing Directors also restaffed—"Local people have a hard time closing a sale when they're social friends of the buyers," Lamondin explained—and retrained the sales personnel and moved the sales office. It had been located in the elegant hardwood-paneled living room of the old mansion.

"It was such a glorious, elegant room that everything else paled in comparison," Lamondin explained. The new sales office was set up in one of the newly constructed units.

The bottom line suggests that the efforts to make real estate brokers think more positively about Beechwood were worthwhile. So far seven brokers have referred clients and sales are now at a healthy 25, with 19 units sold since the broker campaign began last fall.

Penelope Lemov

ECONOMY

PROPERTY INDEX GUIDES PENSION INVESTMENTS

Pension fund officers, an ultra-conservative group when it comes to investment decisions, were beginning to see the light in the late 1970s. At that time real estate investments looked like appropriate additions to their portfolios.

But there was a glitch. While these officers sensed that real estate was a stable, profitable investment, they had no proof, no benchmark. Housing starts weren't a relevant measure, nor was the performance of real estate or home building stocks.

So the FRC Property Index was born last fall. Developed by the Frank Russell Company, Tacoma, Wash., a pension consulting firm, and the National Council of Real Estate Investment Fiduciaries (NCREIF), a 22-member group of lenders and investors such as Prudential Insurance Company, Equitable Life Assurance Society and Bank of America, it measures the performance of institutionally owned real estate.

1983 FRC PROPERTY INDEX
(9 months)

Geographic rate of return	Percent
All regions	7.6%
East	10.1
Midwest	6.2
South	6.3
West	7.7

Property type rate of return	Percent
All properties	7.6%
Apartments	9.8
Retail	9.1
Hotels	8.9
Industrial	6.9
Office	7.2

Source: National Council of Real Estate Investment Fiduciaries and the Frank Russell Company

Although there is no cause and effect link between the index and institutional investments in real estate, there has been a substantial increase in the percent of pension funds invested in real estate in the 1980s. Many pension fund managers have used index data as part of a presentation to corporate boards about pension fund allocations. The index also is used by attorneys, accountants and real estate appraisers, a spokesperson for the index reported.

The index is based on real estate that falls into five property categories: office buildings, shopping centers, industrial buildings, apartment houses and hotels. In all, 854 properties valued at $5.7 million in September 1983 are included.

The properties are ones that NCREIF members bought for cash, so that leverage is not a factor and such features of real estate deals as tax benefits, mortgage rates and joint ventures are not figured in.

"The index looks at real estate return, not the ownership return," noted Richard Raybin, treasurer of Rosenberg Real Estate Equity Fund of San Francisco and NCREIF chairman who spent five years helping to develop the index.

Data for the quarterly index is provided by the institutions owning the properties. Every quarter, the institutions report market value, capital improvement and current income of the property to the Frank Russell Company. FRC, in turn, treats the data confidentially but uses it to generate the index that tracks total return, income and appreciation.

The index also has subindices that can look at geographical and property types. For instance, by the end of the third quarter of 1983 (the most recent period for which the index has data), apartments, shopping centers and hotels were exceeding the index's total rate of return while office and industrial buildings were underperforming. Geographically, properties in the East were enjoying the highest rate of return, followed by the West and a weak South and Midwest.

Overall, for the nine months ending on September 30, the index increased 7.6 percent, an improvement over the 6.1 percent for the same period the previous year.

"The index shows that real estate does provide a hedge against inflation, which is the key thing institutional investors are looking for," Raybin claimed.

The index is available on a subscription basis through NCREIF, 55 East 52nd Street, New York, N.Y. 10055.

Penelope Lemov

MARKETING

LAKE PINELOCH HAS REASON TO CELEBRATE

Lake Pineloch Village had several things going against it.

Where the going price for Orlando condos was $60,000 to $80,000, the two and three-bedroom, 1,300 to 1,850-square-foot units in this 330-unit, 29-acre, infill project were priced

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heat gain from the windows by 85 percent, Miller said.

"The windows are the most efficient idea we've come up with," Miller said. "They are simple and can be used for retrofits or new homes very inexpensively."

Other solar features include a passive solar water heater placed in the attic and exposed to the sun through a skylight. There is also a vestibule to insulate the home from hot or cold air when the door is opened.

Miller said the home is operating as planned. In a state where solar energy is already popular, the Arizona Solar Energy Commission has held a seminar at the house to show other builders what can be done with the sun.

Andre F. Shashaty, a free-lance writer with expertise in housing

ECONOMY

ECONOMISTS PICK THE HOT SPOTS FOR 1984

Dallas-Fort Worth is number one. It will be the hottest home building market in the country in 1984, according to the April NAHB Quarterly Metropolitan Housing Starts Forecast compiled by NAHB's Economics Division using Census Bureau data. Housing starts in 97 metro areas are the raw data for the forecast.

Houses are being built in Dallas at an annual rate of 84,700 starts, the forecasters' data detailed. That's a decline of nearly 25 percent for Big D, but still enough to keep the city on top.

Houston is in second place with 45,800 starts predicted for 1984. A healthy number but, nonetheless, a 20 percent decline from 1983's starts which were a 13.6 percent drop from 1982 when Houston was on top with 66,970 starts.

As a whole, the top 20 housing markets in the country, as measured by starts, should be off last year's total by 8.1 percent. The top 20 cities will account for an estimated 538,031 units in 1984, down from 582,755 in 1983, a 57 percent share of the 97-metro-area market. While the single-family sector will not decline, multifamily starts will be off by 16 percent.

TOP 20 HOUSING STARTS BY METROPOLITAN AREA FOR 1984

SMSA	1984	Percent change 1983-84
1. Dallas-Fort Worth	84,700	−24.6%
2. Houston	45,800	−20.8
3. Atlanta	45,425	1.9
4. Phoenix	36,000	−20.0
5. Washington, D.C.	33,500	5.1
6. Los Angeles-Long Beach	25,000	0
7. West Palm Beach	24,300	33.6
8. Riverside-San Bernadino	24,000	1.7
9. Tampa-St. Petersburg	22,200	−14.0
10. Chicago	20,500	−5.1
11. Denver	20,000	−34.9
12. San Diego	20,000	0.8
13. Orlando	19,870	−2.3
14. Philadelphia	18,778	23.6
15. San Antonio	18,533	−11.3
16. Minneapolis-St. Paul	17,400	8.8
17. New York	16,645	1.2
18. Fort Lauderdale	16,050	33.5
19. Baltimore	14,980	−5.4
20. Miami	14,350	17.9

Source: Bureau of the Census; NAHB Forecasting Service; compiled by NAHB Economics Division

That such cities as Atlanta, Phoenix and Washington, D.C., also head the list should come as no surprise. They're where the action has been and is, but not necessarily where it will be two or three years from now.

"The problem with a good market is that everyone finds out about it after it's a good market. Then too many builders come in and overbuild and it's no longer a good market," observed Alfred Gobar, a Brea, Calif., economist who specializes in analysis of the real estate industry.

Today's hot market also can cool off for other reasons. If the city is dominated by an industry that's economically out of favor, housing starts can decline quickly.

"The booms of the 70s are the busts of the 80s," suggested Kenneth T. Rosen, professor of economics, University of California at Berkeley. Cases in point will be Houston, Tulsa and Monroe and Lafayette, La., which, Rosen believes, will be adversely affected by the decline of the energy industry.

Both Rosen and Gobar, using slightly different methods, are ready to predict where the hot spots of the next few years will be. Some markets already are in the top 20; others will be newcomers to that list.

Rosen, who charts the robustness of a housing market by looking at employment growth, sees California as a leading housing market for the next few years.

"They gained 400,000 jobs last year and that's reflected in housing. During the first three months of 1984, starts were at an annual rate of 220,000 where they were 140,000 a year ago," Rosen explained. The specific California markets he has in mind as hot spots are San Diego, San Jose and Anaheim.

Florida markets will stay on top of the housing start lists, he predicted. The state had a quarter million job gain—40 percent of all employment growth in the country, Rosen noted.

Rosen's other picks for top markets of the future are Long Island, N.Y., New York-New Jersey, Atlanta, Phoenix and Minneapolis-St. Paul.

Markets that won't make the top 10 but should enjoy strong growth include Elkhart, Ind., Connecticut, Virginia and Massachusetts.

At the bottom of Rosen's list is Wyoming—"The number one loser in terms of employment growth"—and West Virginia, where, Rosen suggested, it would be unwise "to move there to build."

Gobar depends on a sophisticated computer-based econometric model he designed to make his hot spot predictions.

His favorite pick for a market that will be in the top 10 for the next five to 10 years is Tampa-St. Petersburg, Fla. "Their economy is balanced now. It's no longer just a retirement community. Manufacturing is coming in. Housing costs are fairly low so builders don't have the difficulty of having to

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build cheap housing to support growth," Gobar commented.

Casting his eye north, Gobar also likes Boston. "The high price of housing in California is retarding growth of the high-tech industry there. More high-tech growth is occurring in Boston because the Massachusetts Institute of Technology is there," Gobar observed.

Also in the north, Gobar, like Rosen, predicted good times ahead for New Jersey, in particular those communities within commuting distance of New York City. Gobar thought there were especially good opportunities for builders of higher quality houses.

Raleigh, Greensboro and Columbia in the Carolinas should also enjoy the housing start spotlight. Gobar ticked off his reasons as strong local economies, pro-business environments and a lot of universities and colleges. The latter provide the employees needed to create home buyers.

The Norfolk-Newport News, Va., area is Gobar's sleeper for an up and coming hot market. "They're developing economically and getting away from dependency on the Navy. Coal loading facilities have been built there and that's giving their economy a shot in the arm."

Penelope Lemov

FINANCE

S&Ls FEEL THREATENED

The savings industry is starting to get touchy about efforts by builders and Realtors to provide more of their own financing.

S&L leaders are upset by the growing use of builder bonds, the establishment of financing subsidiaries by big builders and Realtors and most recently by discussions between the Federal National Mortgage Association (Fannie Mae) and the National Association of Realtors (NAR) to provide more direct financing to Realtors.

These efforts "leave no place for S&Ls," said James Kendall, spokesperson for the U.S. League of Savings Institutions. Other S&L executives have warned that if builders and Realtors persist in entering the lending business, lenders may retaliate.

For example, at the recent BUILDER-sponsored housing round table in Dallas (see May BUILDER), the subject of builder bonds provoked disagreement between builders and lenders.

"If that's the way you (builders) want to finance homes," said Lloyd Bowles, chairman of the board and chief executive officer of Dallas Federal Savings and Loan, "then S&Ls should think about getting into other lending areas—which we're doing."

In response, Paul Seegers, vice chairman and co-chief executive officer of Centex Corporation, Dallas, said that by continuing to sell mortgage-backed bonds his company can lower mortgage rates and pass the savings on to home buyers.

"If we can provide 30-year, fixed-rate mortgages (with builder bonds) we need to do it," he told Bowles.

In another instance, league president William O'Connell warned other lenders that they must be wary of programs claiming greater efficiency for mortgage markets, when that really means supplanting savings institutions as the nation's primary source of mortgage money.

Savings institutions must be aware of competition, he continued, whether it's a mortgage securitization program that "creates extraordinary dependence on national investors" or a computerized linkup of Realtors or builders that offers direct financing to home buyers.

Dependence on national investors would erode the role of local institutions in home finance, O'Connell warned. (He did not mention that S&Ls and savings banks sold 39 percent of the residential mortgages they closed last year in the secondary market, nor that many other loans are structured so they can be sold in the secondary market.)

"Most of the large, franchised Realtors are ready, willing and able to finance the purchases they arrange through their captive financial institutions or through a conduit to Wall Street," O'Connell said.

"If it's reasonable for real estate brokers to get into the business of financing home buyers, I think it is perfectly reasonable for savings institutions to consider getting into the real estate brokerage business."

As for S&L fears that NAR and Fannie Mae will forge a deal to bypass local lenders, NAR says there is nothing like that in the works.

"There are no ongoing discussions between NAR and Fannie Mae on ways for Fannie Mae to enter the primary market as an originating lender," said Steve Candland, NAR's vice president of mortgage finance.

"We were just talking with Fannie Mae in general terms," Candland said, adding that Fannie Mae needs local lenders to originate and service mortgages. "The league got the wrong idea of what we were talking about."

Carol Anderson

GOVERNMENT

REAGAN WILL KEEP HOME MORTGAGE DEDUCTION

The home mortgage interest deduction will be preserved even if the income tax system is changed, President Reagan promised in a May 10 speech before the National Association of Realtors (NAR) in Washington, D.C.

The President noted that tax reform would be a priority in his next Administration but, he added, "In case there's still any doubt, I want you to know we will preserve that part of the American dream which the home mortgage interest deduction symbolizes."

Doubts arose when the President told an April 12 round table on housing sponsored by BUILDER (see May BUILDER) that such a change in policy was possible. In answer to a question from NAR executive vice president and chief economist Jack Carlson about rumors that Reagan's staff was considering doing away with tax deductions for mortgage payments as part of a tax reform package, the President said, "In the area of simplifying the tax system, I have told them to look at everything. Now, would there be any harm . . . if we could have a tax simplification

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NAHB REPORT

PRESIDENT'S MESSAGE

POLITICS AND THE AMERICAN DREAM

With the 1984 elections coming up, the need for personal action on the political front becomes a matter of growing urgency. We have some important things to do and some important choices to make between now and November 6.

For most of us that won't be easy, because with housing activity so strong now and the future more uncertain, attention must be focused on business.

But we must give an effective accounting of our views to the candidates, to the platform writers and, finally, at the voting booths. Housing's well-being will depend on whether we get our views across at the right time to the right politicians on the right issues. The life and death issues for our industry are: budget deficit; high interest rates; regulatory burdens; and the threatened opportunity of homeownership.

Nearly every problem we face in home building is rooted in the actions of politicians. So participating in the political process this summer and fall is crucial. Participating means communicating and supporting candidates for office at all levels of government; and of course it means voting.

Our association is getting ready to launch a major campaign to preserve the American dream of homeownership. We expect to build a platform for housing among concerned business groups. We will send builder delegates to the Republican and Democratic national conventions. We will expand our political action war chests through BUILD-PAC.

Rising infrastructure and financing costs as well as inflation, stop-and-go monetary policies and excessive regulation have pushed up the cost of owning a home beyond the reach of millions of American families. The erosion of the dream of homeownership must be stopped at the polls if it is to be stopped at all.

Peter D. Herder

HBA LEADERS RANK DEFICIT AS NUMBER ONE PROBLEM

A national survey of the leaders of state and local home builder associations affiliated with NAHB found that 60 percent of the respondents think that mortgage interest rates will remain in the 12½ percent to 13½ percent range this year. Another 20 percent see rates declining slightly, while the remainder think rates will rise above their current level before the year is out. However, almost two-thirds of those who responded to the survey think large federal budget deficits eventually will push all interest rates higher.

Results of the survey, which was conducted during NAHB's grass-roots leadership meetings in February and March, show that most HBA leaders expect housing production and sales to drop 20 percent to 50 percent if the deficit remains at the $200 billion level. Despite these fears, more than half the respondents say that starts this year will exceed the 1.7 million units started last year.

When asked what action should be taken to reduce the deficit, about two-thirds said a combination of actions should be taken, including a reduction in the growth of entitlement programs, cuts in military spending and tax increases. Less than 25 percent favor a Constitutional amendment to balance the budget and only 11 percent favor a line-item veto for the President.

The level of concern among builders over the large budget deficit was best measured in how they ranked the importance of NAHB's legislative programs. Three-quarters ranked bipartisan efforts to reduce the deficit as the top legislative priority; reinstatement of tax-exempt revenue bonds for single-family housing ranked a distant second.

Less than 2 percent of the respondents

EFFECT OF PROPOSED BILL TO EXPAND POWERS OF S&Ls IN HOME BUILDING

Projection	Percentage of respondents
Major threat to builders	78.5%
Good for building industry	5.7
No effect on individual builders' operations	2.7
Effects unknown	13.1

ECONOMIC CLIMATE FOR 1984 STARTS AND SALES

(based on 1.7 million starts in 1983)

Projection	Percentage of respondents
More favorable than 1983	54.3%
Less favorable than 1983	3.5
The same as 1983	42.2

felt that maintaining the current rules permitting builders to issue home buyer bonds was important. In contrast, almost 70 percent regard bank reform legislation that would permit greater involvement of lenders in home building and land development as a major threat.

The survey, conducted at 16 grassroots leadership meetings, also asked for views on a number of local building industry problems and a range of NAHB activities.

Following is a summary of responses to some of the questions:

- Almost 90 percent of builders reported that costs of building materials, especially gypsum wallboard, are increasing. And more than half the builders are experiencing problems with shortages of materials.
- The most typical construction problems are processing delays and building codes. In land use and development, the problem areas are zoning ordinances, subdivision regulations, processing delays and utility installation.
- About 25 percent of NAHB members have computers. The computers most often are used for general ledger, job cost reporting, accounts payable, estimating, spread sheet calculations and scheduling.
- Of those surveyed, half rated press coverage and the public image of home building as excellent, one-third rated them good and 17 percent gave them a poor rating.

HBA BUILDS ENERGY INFORMATION CENTER

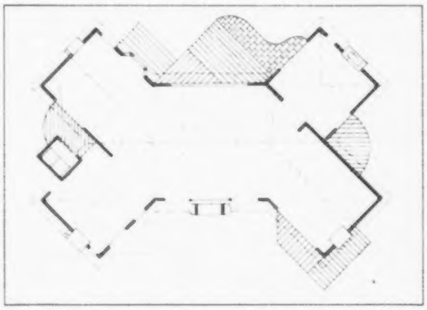
To help consumers better understand the value of energy-saving homes the Home Builders Association of Greater Columbia, S.C., has built a demonstration home in a Columbia shopping mall. The project, called the Energy Information Center, was initiated by the South Carolina Electric and Gas Co. (SCE&G) and represents an alliance of SCE&G, the HBA and manufacturers.

"For our part," said Earl McLeod, HBA executive officer, "we want to provide the home buyer with as much information as possible on energy conservation in new homes. In addition, we want to show in the cutaway house the costs of energy-saving materials and construction techniques in relation to energy savings.

All materials and labor for the house were donated. HBA members were asked to contribute either money ($200 minimum) or the equivalent in materials or labor. More than $5,000 was raised after the first announcement.

The home was built inside an old department store building in a shopping mall. Ceiling, floor and wall cutaways show construction, insulation and sealing options.

Each of the four 12-foot-square rooms in the house will be equipped with appliances provided by different manufacturers. The central display will be a showcase of the most modern energy-efficient appliances on the market. The manufacturers have agreed to pay rent for space in the center.



The Energy Information Center, a demonstration home built inside a shopping mall by the HBA of Greater Columbia, S.C., showcases energy-efficient products and construction methods.

Other features of the Energy Information Center include a room with computerized displays that show the amount of energy used by specific appliances in the home and the capability to give any utility customer a printout of his previous year's energy use and cost.

The center will be a permanent display, with 50,000 visitors expected annually, according to McLeod.

LOCALS AT WORK

- In keeping with the trend to reuse instead of raze old buildings, the York County, Pa., Builders Association has converted an unused school building into its headquarters. The HBA purchased the building for $40,050 in 1980, then remodeled it, creating its own offices as well as tenant space.

The York County, Pa., Builders Association now is headquartered in a school it remodeled.

At present there are three tenants, and the HBA has an office for the president, a board room, an all-purpose seminar room, a kitchen and a basement that eventually will be used for larger meetings and social functions. Linda A. Schiding, executive officer, said the building now is valued at approximately $200,000.

- The Home Builders and Contractors Association of Palm Beach County, Fla., has formed a legal affairs department with a full-time director. The department will monitor the impact of laws and regulations that are promulgated at the state and local levels. David Lloyd, HBA executive officer, said that the director will work closely with the HBA's full-time lobbyist to draft ordinances and to form coalitions with other

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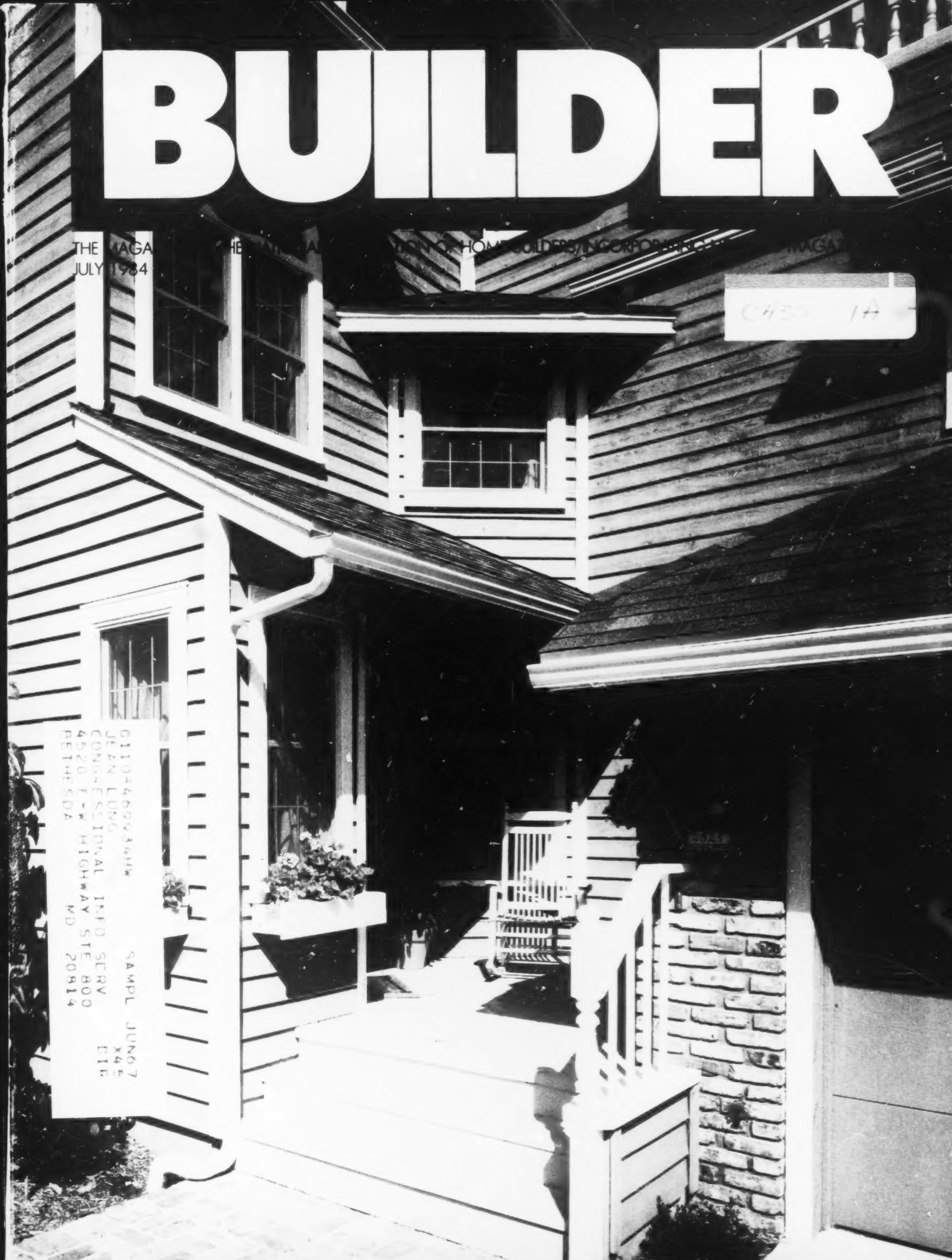

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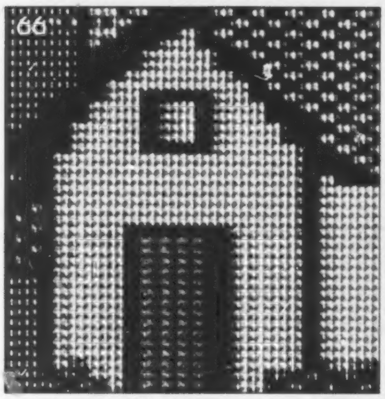

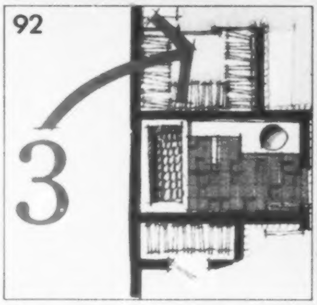

66—COMPUTERS ARE COMING, COMPUTERS ARE COMING

In the last two years computers have made enormous headway in the housing industry. Today two out of every five building firms are computerized. A status report, including a directory of vendors with software designed for builders.

86—CROSS CURRENTS

Housing design in the Midwest usually is as conservative as an Indiana farmer. But that leaves a niche for small, high-priced contemporary projects.

92—DESIGN WORKSHOP: KITCHENS AND BATHS

The "dos" and "don'ts" of designing kitchens and baths, the two most important rooms in the house. Prepared with BUILDER's contributing design editor, William Devereaux, AIA, Berkus Group Architects.

100—PROJECT OF THE MONTH

For six years McGee, Collins & Associates has specialized in building Victorian-style projects on choice sites in Vero Beach, Fla. The strategy has always worked, and Sawyer Park, a high-priced 12-unit project, is the company's latest success story.

(Cover: Sawyer Park, Vero Beach, Fla. Photo: Tom Knibbs)

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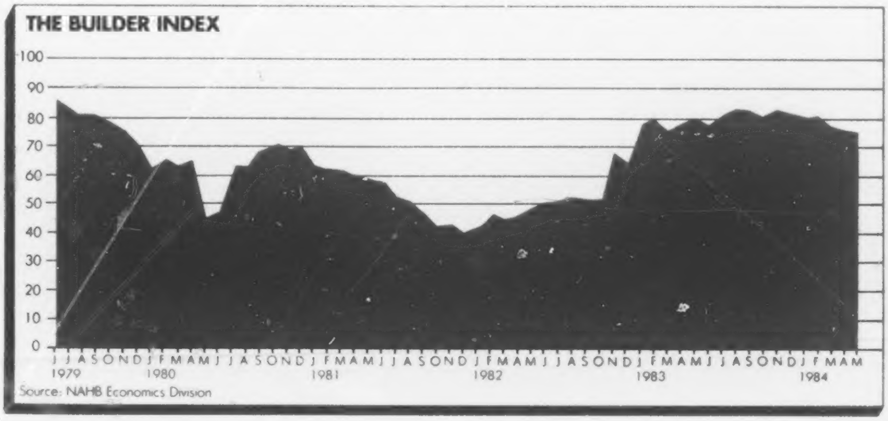
OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



THE BUILDER INDEX

Source: NAHB Economics Division

For the third month in a row the BUILDER Index declined. The slight decline—from 77.12 to 77—reflects concern about interest rates.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Trouble Ahead

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

The economy is amazingly strong, and it has so much momentum it's unlikely a decline will occur any time soon.

Nonetheless there are signs of trouble ahead. Growth is continuing even though credit markets are straining to accommodate demand from government, business and mortgages. So far, the increases in interest rates have had little impact, but eventually they will choke off recovery.

When this will happen is not clear. However, for housing, the decline could start this summer, and the economy as a whole should be affected sometime next year.

There is agreement that the fast economic growth during the first quarter of the year, when the GNP increased by 8.3 percent, will slow to a more sustainable and still strong 5 percent during the second quarter. In April, factory output grew at a vigorous pace of 1.4 percent, which indicates the downturn is not imminent. Purchasing reports indicate a good increase in new orders as well as in production. They also indicate a strong upward trend in prices, which is more or less typical at this point in a business cycle.

Car sales are another good sign. In early May they were 25.5 percent ahead of last year. Some models are even in short supply.

Housing also showed remarkable strength in April. Starts were up almost 20 percent over the March figure, and building permit figures almost guarantee at least another two months of high starts levels.

Stimulative fiscal policies are what's helping the economy now. For example, defense spending has increased by 13 percent in FY 1984 and is expected to increase another 15 percent in FY 1985.

Consumers are helping too. Their disposable income increased 5 percent in real dollars on a per capita basis. At the same time corporate profits, with inventory valuation, increased 66 percent to $268.1 billion; that's $106.2 billion more than a year ago. Corporations are liquid and as a result were able to finance a record 75 percent of all their acquisitions last year from their own retained earnings.

Wages are not accelerating beyond a reasonable level, rising now at an annual rate of 3.6 percent. And there doesn't seem to be a major push to put wage increases in the high double-digit scenario that we witnessed during the past recovery.

The primary question now is whether or not we can hold the line on inflation. The answer is yes, if we avoid overheated economic growth in the second half of the year. And rapid growth seems quite unlikely now as higher interest rates begin to take their toll. Higher rates will affect first home sales, then housing starts and finally the rest of the economy.

The major problem is the extent of government borrowing and the impact that borrowing has on interest rates. This problem is compounded by a fear that the Federal Reserve Board might tighten credit further in response to a possible increase in inflation. The problem will be compounded if corporations enter the credit markets.

The corporate share of borrowing was only 6 percent last year—one of the lowest levels ever. But this has changed. As the chart shows, total borrowing jumped rapidly this year. Total commercial and industrial credit increased to $236.5 billion by May 2, up from $221.7 billion on December 28, 1983. When you add in non-bank paper, the total at the beginning of May was $397.8 billion and increasing at an annual rate of 29 percent for the year.

Last year combined federal, state and local government borrowing took 49 percent of total funds raised in capital

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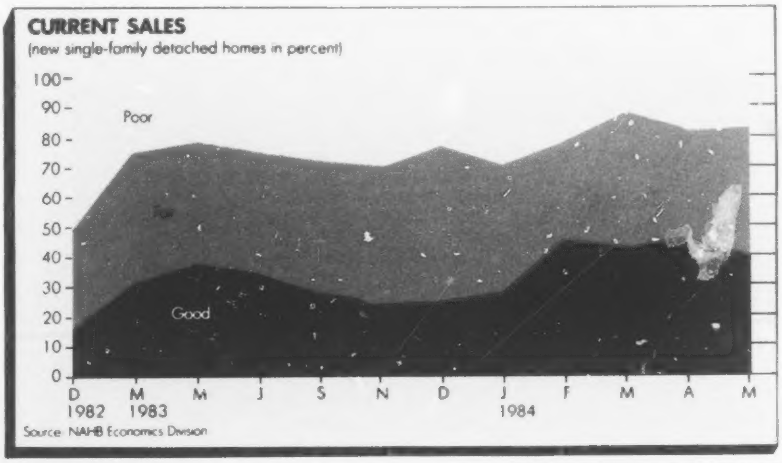
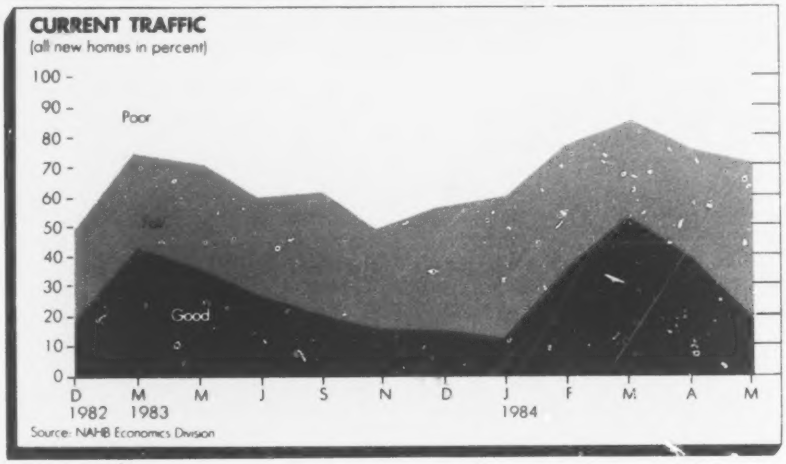
OUTLOOK/BUILDER POLL



CURRENT SALES

(new single-family detached homes in percent)

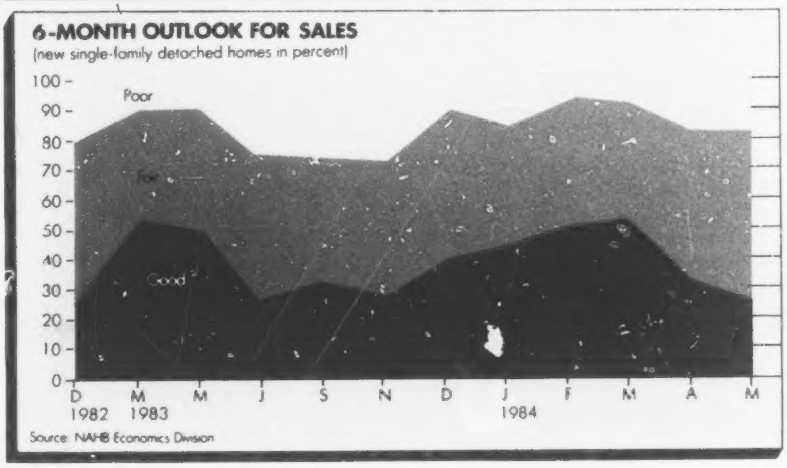
Source: NAHB Economics Division



CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

SLOW TRAFFIC

Higher interest rates are beginning to take their toll. According to the May BUILDER poll, traffic is thinning, new home sales are slowing and builders are considerably less bullish about the six-month outlook for sales.

When surveyed in March, slightly more than half the builders said traffic was good. By May only 20 percent were reporting good traffic (middle chart).

Current sales didn't exactly reflect the big decline in traffic, but sales activity did deteriorate slightly between March and May (top chart). What changed dramatically, however, was the six-month outlook (bottom chart). In March 53 percent of the builders surveyed expected new home sales to be good during the next six months; that percentage was cut in half by May.

Most builders blamed interest rates for slower sales and their lower expectations. For example, an Oklahoma builder said, "It's all over until we see lower interest rates." Echoing that, a builder in Idaho said, "Interest rates must come back down—14 percent levels are not acceptable."

Overbuilding was another common concern, with builders in many markets worried that the new home market was saturated, particularly at the upper end. Housing priced less than $70,000 was selling best.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders t[illegible] present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

BABY BOOM RESOUNDS

The echo baby boom appears to be in full swing. The nation's population under age five in 1983 was the largest in 15 years, the Census Bureau recently reported. That age group grew 9% between April 1980 and July 1983 to nearly 18 million. Births have increasd every year since 1975, although the fertility rate has remained stable. The fastest growth between 1980 and 1983 was among 35 to 44-year-olds; the group increased nearly 15% and will continue to grow the fastest for some time. Also growing significantly was the population of 25 to 34-year-olds (8%), 75 to 84-year-olds (10%) and those 85 years and over (12%). The sharpest decline was among 14 to 17-year-olds (−10%).

CONDO DOWNS AND UPS

The condo/co-op. conversion market should pick up in 1985 following an expected decline this year, according to a recent survey by Advance Mortgage Corporation. Last year was the third biggest year for conversions (85,000 to 90,000), topped only by the estimated 130,000 to 135,000 conversions in 1979 and 1980. But this year should be the lowest since 1977, with only 70,000 to 75,000 conversions expected.

The conversion market will increase next year, Advance says, because the 20% to 25% price advantage that conversions need to compete with new condos should be attainable then. However, conversion activity will shift from New York City, Washington, D.C., and Dallas-Fort Worth to other markets, notably California.

LAND VALUES RISE AGAIN

Land values should climb steadily for the rest of the decade after falling 9% in 1982-83, according to a recent study by Kenneth Leventhal & Company. But increases won't match the 14% annual rises seen in the 1970s. Land values in rural areas should outpace those in urban areas because the population increase has been greater there—15% during the 1970s compared with a 10% rise in urban population.

CONSUMERS CONFIDENT

Consumer confidence in the U.S. is at an 18-year high, according to the University of Michigan's most recent quarterly survey of consumer attitudes. Measuring attitudes in the first quarter of this year, the survey found that 64% of respondents expected their family incomes to increase in the coming year, compared with 53% a year earlier. Only 9% expected an income decline versus 18% last year.

INVENTORY INCREASES

The inventory of unsold new single-family houses increased to a 6.2-month supply in April, up from a six-month supply in March. It was the highest level since September 1983. Regionally, the sales picture in April was mixed. Sales plunged 46% in the Northeast after rising nearly that much the month before. Sales also were down in the West, but only by 2%. However, sales were up 15% in the North Central and 4% in the South. Through the first four months of this year, compared with the same period last year, sales increased 11% to 229,000.

RESALES REACH 4-YEAR HIGH

Resales of single-family homes rose 1.7% in April to an annual rate of 3.07 million units, the highest level since October 1980, reported the National Association of Realtors (NAR). The April resale rate was more than 14% higher than a year earlier. However, Jack Carlson, NAR's executive officer and chief economist, doesn't expect resale activity to increase significantly during the rest of the year due to recent increases in mortgage rates. Carlson added that rate hikes have slowed resale price increases: The median price of an existing single-family home in April rose only $400 to $72,600.

CONTINUED FROM PAGE 13

markets, a decline from the 58 percent in 1982. The mortgage market took 27 percent in 1983, compared with 17 percent in 1982.

Government and mortgages, therefore, took 76 percent of available credit last year, the second highest share since the end of World War II. (In 1975 the combined share was 80 percent.) Thus, all other borrowers—consumers, corporate and foreign borrowers, open market paper, etc.—had to vie for just 25 percent of available credit.

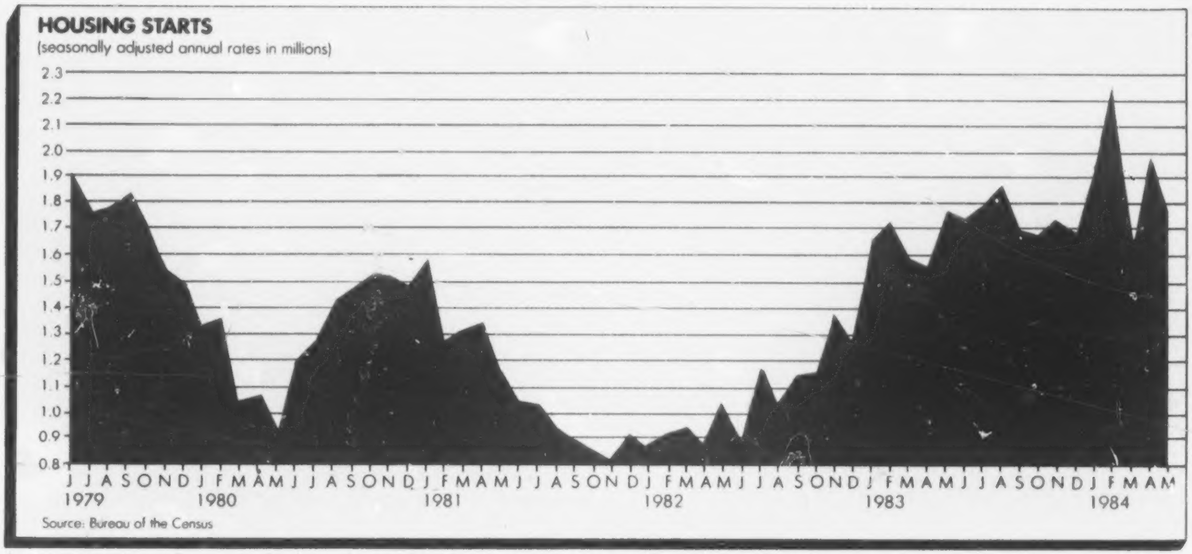
The residential mortgage market will need more money this year than last, when it consumed $120.5 billion. There will be about 100,000 more housing starts this year; the resale market will be about 16 percent higher on a year-to-year comparison; prices of new homes will be up (they're already 9 percent higher); and prices of existing homes are now up more than 5 percent. As a result of all of that, the residential mortgage market will be at least 15 to 20 percent bigger than last year—or, between $20 and $30 billion larger.

Corporate borrowing already is way up. Consumer credit jumped sharply in the last quarter of 1983 to $86.8 billion, and continued to increase in the first quarter of 1984. Last year the federal government took $254.7 billion out of the total credit markets, a new record which probably will be broken this year.

All of this will affect the credit markets. In this climate of uncertainty, with the government tapping the capital markets (and not much happening in Washington), it's not hard to see that there will be further increases in interest rates.

Our forecast shows rates on 30-year, 80 percent fixed-rate mortgages reaching nearly 15 percent this year and climbing to almost 16 percent by the end of 1985. If this happens, housing will slow down in the second half of 1984 and drop off sharply in 1985.

OUTLOOK/STATISTICS

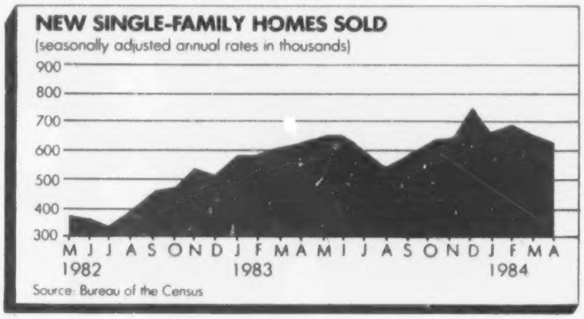


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

As rising interest rates began to take their toll, starts fell 10.5% in May to an annual rate of 1.78 million from an upwardly revised April rate of 1.99 million. Single-family starts declined 8% while multifamily starts dropped nearly 14%. May starts were slightly higher than a year earlier.

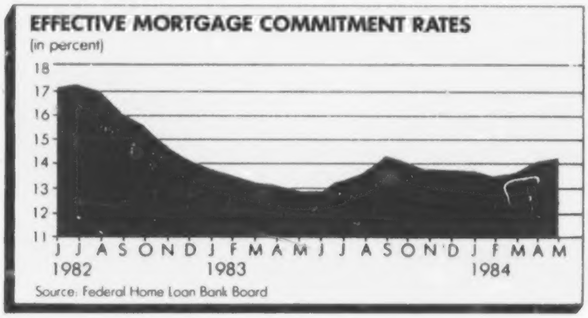


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

Sales declined 5% in April to an annual rate of 634,000. It was the second consecutive monthly decrease, but the April rate was the same as that of a year earlier.

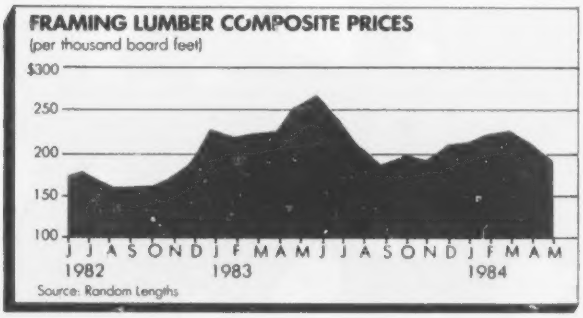


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

Mortgage rates continued to climb in May. Commitment rates on long-term, fixed-rate mortgages rose 22 basis points to 14.34%; uncapped adjustable rates advanced one basis point to 12.44%.

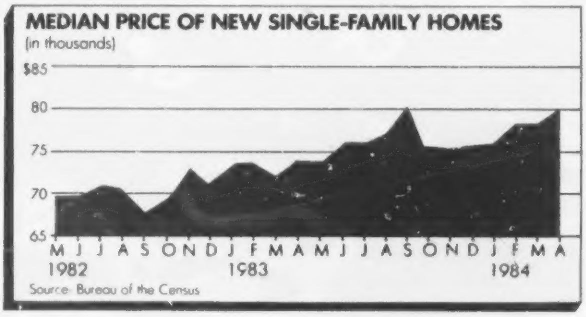


FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices tumbled 11% in May to $193 per thousand board feet. It was the second drop in as many months. The May price was down 24% from a year earlier.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median price of new homes increased by $1,500, or 2%, in April to $80,300. The April price was 7.5% higher than a year earlier.

maximum of $900 (plus out-of-pocket costs). For transfers that don't require credit approval, the maximum fee is $100. If the lender's costs don't warrant these fees, however, the charge should be less.

While the new policy applies only to loans in which Fannie Mae holds a 100 percent interest and carries no legal obligation, Mahn believes it will set a new standard in the industry.

"It will be observed by other investors," Mahn said. "When you have policy set by the two largest secondary market entities, it will stand for the entire secondary market. We have a lot of clout."

Lew Sichelman, a syndicated housing columnist

SURVEY

RECESSION HURT MID-SIZE BUILDERS THE MOST

The 1981-82 recession killed off a significant number of home building firms and forged a more concentrated industry, allowing large builders to increase in numbers and market share at the expense of medium-size builders.

Nevertheless, the industry remains diffuse and highly localized with little danger that a few very large builders will be able to monopolize the market.

Those are some conclusions of recent studies conducted separately by the Census Bureau and the NAHB Economics Division. Findings confirm a substantial drop in the number of home building firms during the recession as well as significant changes in the structure of the industry.

The number of firms fell 28 percent from 129,245 in 1977 to 93,676 in 1982, according to the Census of Construction Industries study which is conducted every five years by the Census Bureau. At the same time, housing starts plunged 46 percent.

(It is not known how many of the firms that stopped operating by 1982—the depth of the recession—have made a comeback. However, there are indications that a number of them have. For one thing, the number of NAHB's builder members is nearly back to the 1978 level.)

BUILDERS' MARKET SHARE

	1978		1982	
Number of units	Percentage of builders	Percentage share of units	Percentage of builders	Percentage share of units
Small builders				
Less than 11	47%	4%	54%	5%
11 to 25	26	10	19	7
Subtotal	73	14	73	12
Medium builders				
26 to 50	13	10	11	8
51 to 100	7	11	7	11
Subtotal	20	21	18	19
Large builders				
101 to 500	6	43	8	49
More than 500	1	22	2	19
Subtotal	7	65	10	68

Source: NAHB Economics Division

The Census study also documented the decline in the number of building firms by region and by state. Not surprisingly, builders in the North Central were hit hardest. The number there plummeted 38 percent, followed by drops of 29 percent in the Northeast and 23 percent in the South and West.

The state losing the largest number of building firms was Pennsylvania, where 2,404 companies, or 36 percent, disappeared between 1977 and 1982. Illinois was the second biggest loser with a decline of 2,067 firms, or 41 percent, followed by California where 2,041, or 16 percent, stopped operating.

In addition to the Census data on changes in the number of building firms, NAHB's Economics Division recently provided data on changes in the industry's structure based on the association's surveys of builder members conducted over the years. Findings indicate that the recession affected the size of building companies and the type of construction they do.

The percentage of large builders increased while the proportion of medium-size builders declined and the percentage of small builders stayed about the same. During the same period, many building companies diversified by getting into custom home building, remodeling, commercial-industrial construction and land development.

The percentage of large builders, those who build more than 100 units a year, increased from 7.4 percent in 1978 to 9.7 percent in 1982 while the proportion of medium-size builders, those with an annual volume of 26 to 100 units, declined from 19.7 percent to 17.6 percent. The proportion of small builders (up to 25 units a year) remained nearly unchanged at about 73 percent.

Large builders also increased their market share. They built 68 percent of all new housing units in 1982 compared with 65 percent in 1978. During the same period, the market share of medium-size builders dropped from 21 percent to 19 percent. Small builders' share fell from 14 percent in 1978 to 12 percent in 1982.

Clearly, medium-size builders suffered the most during the recession. They lacked the financing resources and economies of scale enjoyed by large builders and the flexibility and low overhead costs of small builders.

"The middle guy is in a bind but

NUMBER OF BUILDING FIRMS

Region	1972	1977	1982	Percent change 1972-77	Percent change 1977-82
Northeast	21,746	24,717	17,665	+14%	−29%
North Central	23,273	31,992	19,911	+37	−38
South	35,449	44,100	33,890	+20	−23
West	17,296	29,108	22,375	+68	−23
Total U.S.	97,858	129,245	93,676	+32	−27

Source: Census of Construction Industries

not in danger of disappearing," said William Apgar, a housing expert with the MIT-Harvard Joint Center for Urban Studies. "If he can solve his financing problem, he will continue to exist."

Apgar noted that the growth of multi-builder bonds is helping medium-size builders compete for financing and that the spread of building franchise operations can provide medium and small builders with economies of scale such as in the purchase of building materials.

"There are a lot of places, like rural and smaller cities, where large builders can't get the volume they need. And there is a strong, long-term demand for trade-up housing," said Apgar, adding that both conditions favor smaller builders.

He isn't worried that the industry is becoming too concentrated. "Obviously some concentration has occurred. But the top 100 firms build only about 15 percent of the units—that's not heavy concentration," Apgar said. "Compared with any other durable good, housing is incredibly fragmented."

In addition to changes in size and market share, building firms have diversified their construction activities in recent years as a defense against a sinking housing market.

According to NAHB surveys, a smaller proportion is building single-family production housing and a larger percentage is involved in custom building, condo construction, remodeling-rehabilitation, commercial-industrial construction and land development.

Following is a comparison of building activities listed by builders surveyed by NAHB between 1978 and 1983 as important in their businesses.

- Single-family production homes—declined from 69 percent (of builders) in 1978 to 57 percent in 1983.
- Custom building—increased from 49 percent in 1978 to 56 percent in 1982 before declining to 53 percent in 1983.
- Condo construction—increased from 9 percent in 1978 to 23 percent in 1983.
- Remodeling-rehab—increased from 16 percent in 1978 to 40 percent in 1983.
- Commercial-industrial—increased from 17 percent in 1978 to 44 percent in 1982 before declining slightly in 1983.
- Land development—increased from 33 percent in 1978 to 42 percent in 1982 before declining to 38 percent in 1983.

Carol Anderson, News Editor

FINANCE

DON'T LEAVE HOME WITHOUT THE HOUSE CARD

Salespeople who spend hours with would-be home buyers only to find out they can't afford to buy should welcome a newcomer to the housing business—the mortgage credit card.

Brokers Mortgage Services (BMS) of West Collingswood, N.J., now issues credit cards to potential buyers even before they start searching for a house. The cards are stamped with the maximum mortgage amount the lenders think their holders can afford.

When a salesperson sees the BMS House Card, explained company president Alan Markowitz, he "knows he is dealing with a serious buyer and does not waste time trying to sell him a house that is out of his price range. The card also eliminates the problem of taking a house off the market while the builder or broker waits for mortgage approval."

To get a House Card, which costs $10, buyers must supply BMS with basic information on employment, salary, assets and liabilities. Applicants who pass muster are issued loan qualification schedules for several types of mortgages—30-year, fixed-rate loans, 15-year mortgages and short-term adjustable loans—at current interest rates. They also get a 30-page guide to mortgage finance and the credit card.

Once a card holder finds a house it must be appraised and the buyer's financial condition reviewed more thoroughly. But "the card is a conditional commitment," said BMS vice president James L. Smith, who is in charge of the program. "If the buyer gave us accurate information initially and the appraisal stands up, there's usually no problem."

Card holders don't have to take a loan through BMS, but they get their $10 back if they do. (All loans are issued at rates that are current at the time of the sale.)

Since the program started about six months ago, BMS, which has 13 offices in New Jersey, Pennsylvania, Delaware, Massachusetts, Maryland, Virginia and Texas, has taken about 3,000 applications for the House Card, according to Smith, most from young people and empty-nesters. About 2,400 cards have been issued. The average card holder qualifies for a $50,000 to $80,000 mortgage but several have qualified for the maximum loan under the program—$300,000.

Builders and brokers have greeted the mortgage card enthusiastically. One builder, the Scarborough Corporation in Winslow Township, N.J., drew a lot of traffic by offering a free appliance to any card holder who bought one of its houses by April 30.

BMS attributes about 100 mortgages directly to the card, but 75 percent of its card holders said in a recent telephone survey that they still are

CONTINUED ON PAGE 48

COMPUTERS ARE COMING COMPUTERS ARE COMING

Computers have become as important to builders as hammers and nails and 2 × 4s. No longer used only by big builders, computers are making the difference between black ink and red for builders of every size.

DEBORAH V. WOODCOCK, NEW PRODUCTS EDITOR

Five or six years from now, the computer will be as important as the office typewriter to the building business. So thinks Michael Eckert, director of NAHB's business marketing department, as well as many consultants, vendors and builders. Home building is in the midst of computerization.

Five years ago fewer than 10 percent of NAHB's members had some kind of computer capability, Eckert estimated. And most of those who did were large builders who used powerful mainframe systems, minicomputers or outside service bureaus to process their information. Most small builders just didn't have enough data to make data processing worth their economic while.

Then small, relatively inexpensive microcomputers came on the scene and smaller builders began to take the idea of computerizing seriously. During the 1978 to 1983 recession, builders began to realize that the computer was more than a tool to process large quantities of information; it was a way for them to streamline their operations and help them through a tough time.

It could act as a management tool to better control their costs, allow them to anticipate changes rather than react to them and perform calculations too time-consuming to do manually. The catch was, of course, that to save money in the long run the builder had to have the capital to invest in the computer in the short run. And most small or medium-size builders just didn't have that capital. Those who could invest in a computer were fortunate: The slow building market gave them a prime opportunity to concentrate on planning and implementing their systems properly.

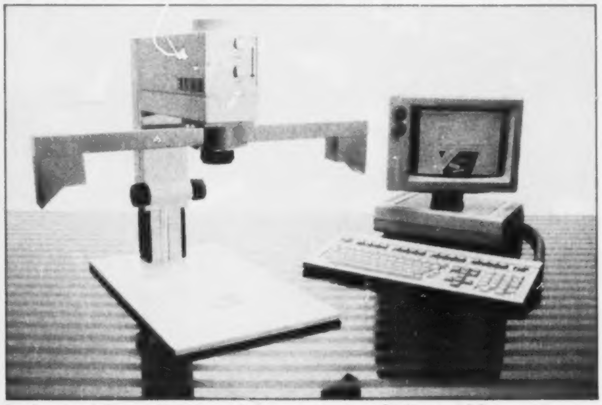
Although most builders couldn't buy, they sure did look; "1982 and 1983 were educating years for builders," believes Joyce Znamierowski, marketing applications manager for Digital Equipment Corporation, a computer manufacturer in Merrimack, N.H. That education has translated into a surge in computer buying this year. "By the NAHB show in January," she added, "most of the builders we saw were looking to buy within six months. The majority of them weren't asking the basics, either. It wasn't, 'What does this thing do?' It was 'Let's see what you have.' "

A survey conducted for BUILDER (see sidebar page 72) this spring by Inter-Media Marketing, a West Chester, Pa., research and marketing firm, supports Digital's assessment of the computer market. Of builders surveyed who started 100 or fewer units last year, one-third now have data processing capabilities and an additional 42 percent plan to acquire a computer.

Computer graphic: Steve Phillips

Business hardware, MAI, Basic Four Information Systems Division. Circle no. 101.

Apple IIe, Apple Computer Inc. Circle no. 102.



Professional Computer, Wang Laboratories, Inc. Circle no. 103.

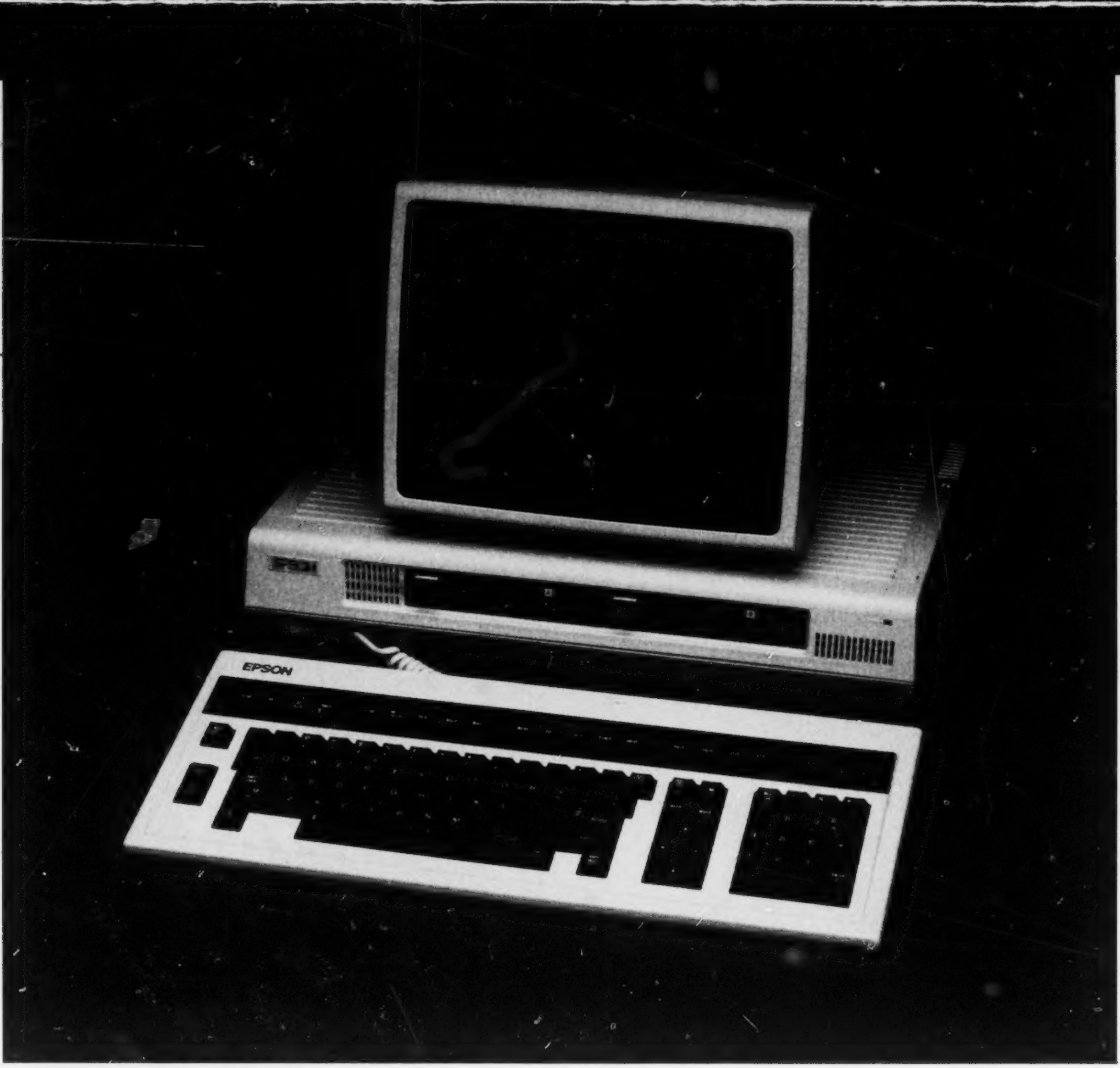
System cost always has been a big concern of builders. According to Eckert, the combined cost of computer hardware (the actual machine) and software (the instructions that tell the machine what to do) has remained relatively steady over the past few years even though the cost distribution has changed. A modest but comprehensive microcomputer system should run in the $10,000 to $12,000 range for hardware and software, he said; larger, minicomputer systems go for between $40,000 and $50,000. Hardware used to account for about 80 percent of a system's cost; now that figure is down to 60 percent and software costs have risen to make up the difference.

But the higher prices of software also reflect some good news. Builders initially had the choice of inexpensive, general-purpose turnkey packages, contractors' packages or costly, custom-designed packages. None of these was appropriate for the small or medium-size builder, who had specific needs but a limited budget. Smaller builders who made do with the less expensive packages were more often than not disappointed.

In the last few years, however, software manufacturers have come out with packages that fall somewhere between all-purpose and tailor-made in capability and price. These packages for home builders take into account, for example, that a builder controls his cash flow differently than a store owner does. The result is software that meets builder needs without the custom software price tag.

More appropriate software, more powerful and less expensive microcomputers (the type of system most often chosen by small builders, according to Eckert), and the need to have information fast have pushed more builders into the computer marketplace than ever before.

What are they buying? Simply put, a computer is a management tool that stores, generates and organizes information for easy access. It generally consists of storage (including built-in memory, and hard and floppy disks), some way to put information in (a keyboard) and get information



QX-10, Epson America, Inc. Circle no. 104.

out (a terminal) and the brains that tell the system how to do what it's supposed to do (the central processing unit, or CPU). Software tells the system what to do by giving it instructions to follow in a specific order.

There is no one best way to select a computer. But vendors, consultants and builders seem to agree on a few common-sense rules. They also agree that time spent upfront organizing to computerize "will pay off 10 to 1," as Znamierowski put it.

Start by organizing the company's manual system. "The computer won't organize things for you. And if you put junk in, you'll get junk out," said John Ernst, construction industry analyst for IBM Corporation in Atlanta. Itemize paperwork, employees, jobs and accounts and determine how records are tracked through the office. Then prioritize problems so the list of needs can be chopped from the bottom up when shopping for a computer. "You just won't find everything you want in a system," explained Eckert. "The trick is to find one that's as close as possible to your management style and then work with it."

Education is the next step, "but don't feel you have to have the background of a programmer to computerize," said Znamierowski. Builders can learn basic terminology from NAHB business management seminars; local retailers also may provide help without pressure to buy, said Ernst. Most important, talk to other builders who are shopping for a computer or already have one to learn about the systems available. (A list of builders who use computers is available from the NAHB business management department. The department also can provide a list of vendors who make software for home builders. A computer manual that provides background and practical operating advice will be available in September.)

There's no simple formula for figuring out what a system should cost, said Eckert. Ernst agreed; he believes a builder should spend just as he would for any other tool—by considering the return on the investment. And the savings are clear, he said, if applications are examined individually.

Take an equipment management program, for example. It can save by scheduling equipment efficiently, figuring rent or buy benefits and tracking maintenance schedules and costs to keep equipment on the site instead of in the shop.

Buy software first. "Our biggest problem," said Eckert, is that builders who start with the hardware "get the machine out of the box and suddenly discover there's no software to run on it." In fact, once the software choice is

TRS-80 Model 2000, Radio Shack, a division of Tandy Corp. Circle no. 105.

made, he emphasized, the type of hardware and its storage capacity are virtually decided.

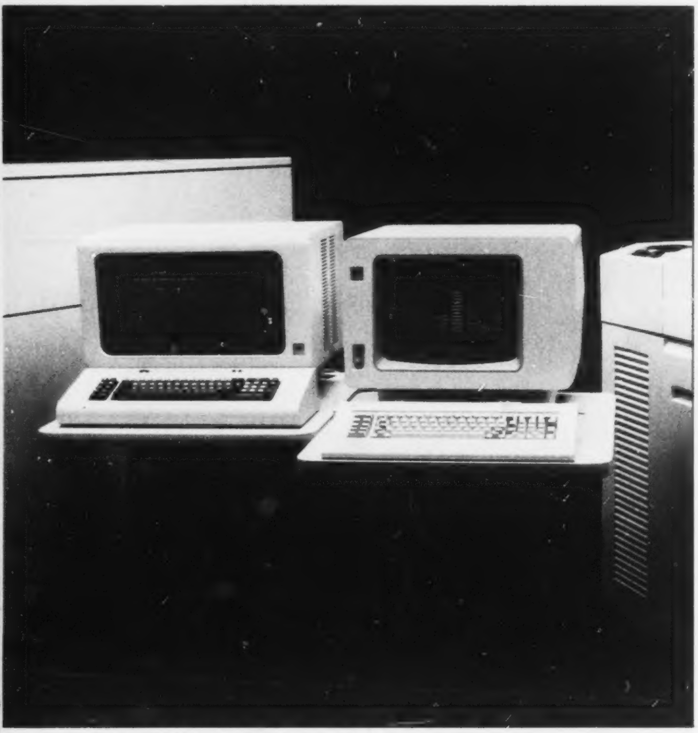
In addition to being geared to home builders, software in a management system should be integrated, that is, data entered just once should be carried through the entire system. Integration, in addition to keeping the data for every program as current as possible, reduces entry time and the chances for entry error. Planning for growth is important, too: 67 percent of the surveyed builders who start 100 or fewer units said they plan to expand their software systems. Three to five years ahead is a good time frame to work with, say most experts. Beyond that the company's plans—as well as its computer equipment—could be out of date.

Check out support and service carefully. How large is the computer company's support staff? Does the initial price include training, a hotline, corrections to the system, enhancements or on-site visits by a manufacturer's representative? Do service charges change after a month or a year? And look into the company. Ask how long it's been around and whether builder references are available.

A last word on choosing a system: "If the vendor can't talk to you in your own language, walk away," said John Stout of the builder business management consulting firm, J. Stout & Associates, Rockville, Md. J.D. Brooks, an Atlanta builder, agreed. "It means he doesn't understand your business—he's retreating into what he knows—and that can't be any good for you."

Can a consultant help a builder through the computerization maze? Yes, but smaller builders generally don't use a consultant until it's time to upgrade the system or a problem arises, said Eckert. Larger builders, however, who have more complex organizations, often use consultants in their initial search. Finding a good consultant is much like finding good software, he added—it's often best done by reference and word of mouth.

Making sure a consultant understands how a company operates is most important, said Gary Cavender, controller and data processing manager for Talley Corporation in Denver. Talley, which plans to build more than 700 units this year, used a consultant to bring its computer on line last December. Basic accounting and spreadsheet functions have returned cost and time savings. And the computer has boosted Talley's image with buyers. In the sales office it qualifies buyers and demonstrates tax benefits and financing plans. Buyers are impressed with the printout they receive and have spread the word about the company, said Cavender.



System/34, IBM Corp. Circle no. 106.

Mac McKinney of McKinney Homes in Houston isn't using his year-old computer for marketing yet; it's devoted almost exclusively to finance. But McKinney, who builds about 350 houses a year, finds the computer improves his image, too—with lenders. "Any time you can show your banker that the controls are logical and have the most up-to-date figures possible, it can only work in your favor," he asserted.

John Wolfe, president of John Wolfe Homes, bought one of the first systems designed for builders five years ago. "There were just a handful of builders at the time to confer with," he recalled. The bottom line for Wolfe, who builds about 50 homes a year in Atlanta, is that he's able to stay within a tenth of a percent of his projection with committed costs—"and that saves a bundle." Computerizing controls his office better, too; definite deadlines now are set and met regularly. Wolfe started with basic accounting and then acquired estimating, purchasing, scheduling and word processing.

The way Wolfe, McKinney and Cavender's companies have grown with their computers illustrates the computer's evolution—and a home building revolution. Their costs and operations under control, builders are taking a greater interest in marketing and are forecasting and planning more

USER UNFRIENDLY

Computerizing is not always as simple as it sounds—take it from J. D. Brooks. Brooks, the president of Homeland Communities in Atlanta, used a computer service in the early 70s. So he had some idea of what to expect when he decided to automate in-house about four years ago. He found an integrated software package that met Homeland's management and accounting needs, but he wasn't satisfied with the company making the compatible hardware. He approached another manufacturer which gave him a great presentation, but offered no software.

In 1982 Brooks decided to buy the hardware and software he originally wanted from another builder for $50,000. He promptly discovered bugs in the estimating and purchasing modules. And to top it all off, Brooks couldn't count on help from the software manufacturer; if support for original owners was scarce at the time, for second-hand owners it was virtually nonexistent.

Finally Brooks turned to computer consultant Michael Johnson; after nearly a year and an extra $6,000, 11 of the package's 13 modules are running. But Brooks doesn't expect the problems to end there. Just like any other piece of equipment, he expects trouble to crop up now and then.

A typical scenario? "Everybody I've talked to has had the same general problems: integration, user friendliness, maintenance," noted Brooks. "But it's been worth it. There's no way we could be doing the things we are if we didn't have the computer."

Homeland's controller, Jackie Lawrence, agreed. "We closed 339 single and multifamily units last year and expect to do almost 600 this year," she said. "The growth was natural, but the computer allowed us to grow faster than we expected—and yet keep tighter control."

How can builders keep out of trouble? Brooks laughed. He questions his consultants, sales and service people constantly. "I don't know computers, but I know my business. So if the manual says it can be done and the computer people say it can't, I want to know why."

As their experience grows, builders also will become more adept at dealing with trouble, thinks Brooks. In Atlanta, for example, Homeland and about 10 other builders joined forces to pressure a software manufacturer for support, enhancements and corrections. "We were much more successful at getting their attention than if each of us had written a letter individually," Brooks said.

COMPUTER-AIDED BUILDERS

A surprising number of builders already have computers. Not many, however, have had them for very long. And those builders that have computers most often use them to perform accounting functions.

Those are some of the findings of a telephone survey of 547 builders conducted for BUILDER by Inter-Media Marketing, a research and marketing firm in West Chester, Pa.

The survey showed that while the use of computers indeed is widespread among all builders—in total 40 percent have computers—big builders (those who built more than 100 units last year) are three times more likely to have a computer than are small builders (those who built fewer than 25 units last year). And while more than three-quarters of all small and medium-size builders (who built between 26 and 100 units last year) have personal-type microcomputers, about half of all big builders have far more powerful and versatile mainframe computer systems.

When it comes to computers there are other significant differences between big builders and smaller builders. For example:

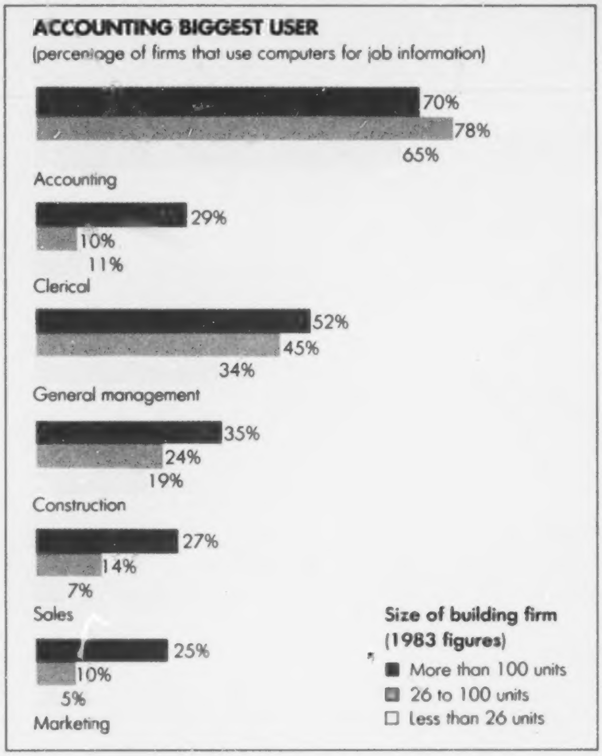
- About 90 percent of small and medium-size builders spent less than $20,000 for computer hardware. On the other hand some 60 percent of big builders spent more than $20,000, and a third spent more than $50,000;
- Management and the sales and marketing staffs of big builders are much more likely to use computers than their counterparts at smaller firms;
- Two-thirds of the biggest builders—firms building more than 500 units a year—developed their own software, while 80 percent of smaller builders purchased software packages.

In other areas, however, there's very little difference between big builders and smaller builders. Among small builders with computers, about half have had the computer for less than a year, but relatively few builders big or small have had computers for more than two to four years.

As might be expected, builders of all sizes most often use their computers to handle accounts payable, accounts receivable and job costing.

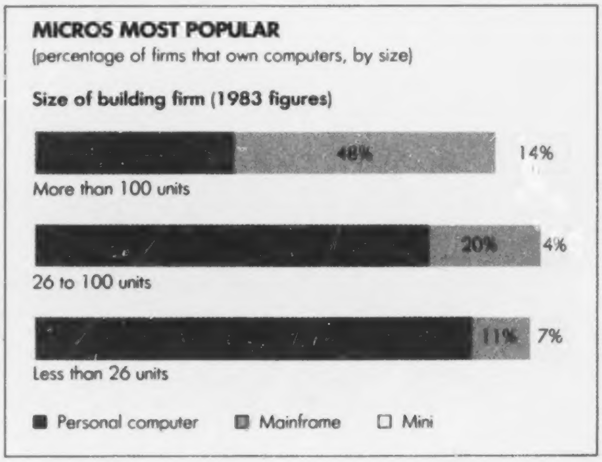
The survey also showed that no one computer company or software vendor dominates the builder market. According to the survey the most commonly used computer hardware carries either the IBM, Apple or Radio Shack brand name, while IBM, Apple and VisiCalc are the leading software vendors.

Frank Anton, Editor



ACCOUNTING BIGGEST USER

(percentage of firms that use computers for job information)



MICROS MOST POPULAR

(percentage of firms that own computers, by size)

HARDWARE A MAJOR EXPENSE

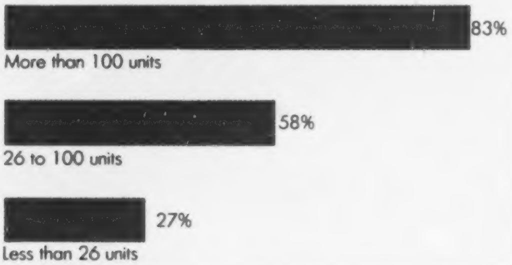
(percentage of firms that invest in hardware)

Cost of hardware	Size of building firm (1983 figures) Less than 26 units	 26 to 100 units	 More than 100 units
Less than $5,000	43%	20%	13%
$5,000 to $10,000	39	34	12
$10,001 to $20,000	13	27	13
$20,001 to $50,000	3	7	25
More than $50,000	3	11	37

COMMON AMONG BIG BUILDERS

(percentage of firms that have computers)

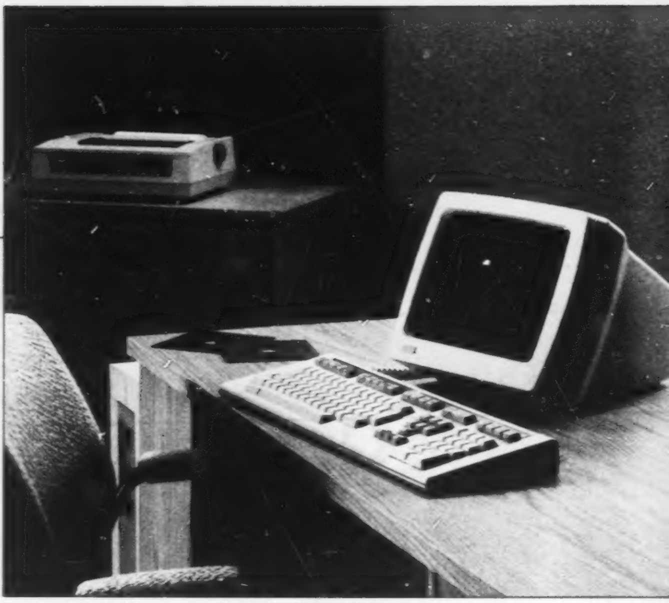
Size of building firm (1983 figures)



JOB COSTING KEY FUNCTION

(percentage of firms that use computers, by job type)

Computerized work	Size of building firm (1983 figures) Less than 26 units	 26 to 100 units	 More than 100 units
Accounts payable	50%	66%	62%
Accounts receivable	35	45	50
Customer service	4	3	10
Electronic spreadsheets	16	41	17
Estimating	37	36	33
Financial statements	32	36	48
General ledger	55	60	60
Inventory control	14	27	35
Job costing	60	60	67
Market analysis	9	14	23
Payroll	45	45	62
Property management	7	7	17
Purchasing	11	24	33
Scheduling	10	7	23
Word processing	37	43	29



Rainbow, Digital Equipment Corp. Circle no. 107.

than ever, to increase profits and minimize risks. At the end of 1983, NAHB's data processing information exchange reported that the most popular applications for expansion were word processing, scheduling and market analysis. And a higher percentage of builders, believes computer consultant Michael Johnson, of Michael C. Johnson & Co., Redmond, Wash., are thinking of the computer as a comprehensive management information tool rather than just an accounting aid. Even if housing takes a downturn next year, Johnson, who has advised about 1,500 builders, sees the market for management information systems remaining strong, because they're being purchased by builders with foresight.

This breed of builder is likely to be young, sometimes second-generation builders, who have college or business school educations rather than a trade background. Their broad training makes them interested in controlling all aspects of a business and they're already familiar with what the computer can mean to a business.

These builders also are more likely to listen to what buyers want, and that means they'll have to deal with computers outside the office, too—in the houses they build. According to the *New York Times,* in the last five years about 3 million U.S. households have acquired a computer. Homes are becoming offices too for people who do business by computer, and home terminals now can be tied into computerized banking, shopping and information systems. At least one builder, Southampton Homes in Benicia, Calif., is selling homes prewired for computer stations. Buyers have been young professional families with a computer or planning to buy one as well as those interested in the resale value of a computer-wired home, according to Southampton spokesperson Rod Herman.

What happens when bits and bytes meet sticks and bricks? Stout thinks that with the exception of the builder starting 10 units or less, some kind of computer exposure—through a service or an in-house system—will be essential if a builder is to survive the next five or six years. A builder who is ready and willing to adopt the new technology will have the edge.

SOFTWARE DIRECTORY

VENDOR	APPLICATIONS
Adata Corp. P.O. Box 55184 Indianapolis, Ind. 46220 (317) 257-5658 Joanne Jungclaus	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, labor distribution, subcontract control, fixed assets, scale ticketing, price lists
Basic Four Information Systems Div./Management Assistance, Inc. P.O. Box C-11921 Santa Ana, Calif. 92711 (714) 730-2989 Susan Feinberg	Job costing, general ledger, accounts payable, payroll, word processing, accounts receivable, estimating, financial planning, construction inventory, purchasing, bidding, scheduling, office management, business graphics, data management, property management
Bennett Data Systems, Inc. 3535 Beach Hill Dr. Atlanta, Ga. 30340 (404) 938-5279 Blaine Bennett	Job costing, general ledger, accounts payable, estimating, cash disbursements and check writing, price lists, purchasing
Bristol Information Systems, Inc. 84 N. Main St. Fall River, Mass. 02720 (617) 679-1051 Gail Kieger	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, labor distribution, subcontract control, fixed assets, purchasing, order entry/billing, time accounting, inventory, warranty tracking
Computer Guidance Corp. 2301 E. Shea Blvd. Phoenix, Ariz. 85028 (602) 244-1988 Russ Temple	Job costing, general ledger, accounts payable, payroll, accounts receivable, purchasing, inventory, order entry/billing, time and material billing
Computer Programming Associates, Inc. 8041 Sierra St. Fair Oaks, Calif. 95628 (916) 962-9296 Paul Raymond	Estimating, real estate sales
Concord Management Systems 6301 Ivy Lane Suite 500 Greenbelt, Md. 20770 (301) 345-5300 Andrew Walls	Job costing, general ledger, accounts payable, payroll, word processing, accounts receivable, estimating, subcontract control, fixed assets, committed cost, purchasing, service billing, AIA billing, inventory, equipment costing

Just a few years ago, software designed specifically for builders was hard to come by. Now there are packages to suit every management style. This directory provides a starting point for the software search: It breaks out each vendor's products by application, price and support and provides contacts for further information.

HARDWARE	AVERAGE COST	SUPPORT	SERVICE AREA	BUILDER USERS
NEC Astra	$2,000/module $20,000 for whole package	$100-$500 yearly for training, enhancements	National	55
Basic Four S10, Basic Four systems 110, 210, 310, MAI 1600, 8010, 8020, 8030	$12,000-$500,000 for whole package, including hardware	Training, hotline, on-site visits, enhancements, charge according to package	National	1,000
Radio Shack TRS-80 Models III, IV	$2,375/module	No charge for training, enhancements	National	35+
IBM PCXT, Eagle PC, Spirit, Compaq PC, Corona PC, Seequa PC, Tandy 2000	$800/module	Toll-free hotline for first year; charge (usually 10% of package price) thereafter for revisions	National	100+
IBM System/36	$3,500/module	No charge for on-site visits, hotline, enhancements during first year; 10% of licensing fee thereafter	National	3
IBM PC and compatibles	$299	No charge for business-hours hotline	National	120
IBM PCXT, System/34, 36, T.I. PC and 372, DEC 350	$2,000/module	Variable charges for training, hotline, updates, enhancements	U.S. and Canada	300+

VENDOR	**APPLICATIONS**
Conex Electro Systems, Inc. P.O. Box 1342 Bellingham, Wash. 98226 (206) 734-4323 Roger Vergin	Income property analysis, rent/buy analysis, loan evaluation, investment policy analysis and projection
Construction Data Control, Inc. 6140 Northbelt Parkway Suite A Norcross, Ga. 30071 (404) 448-4722 David F. Patterson	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating
Construction Technologies 15600 Redmond Way Suite 102 Redmond, Wash. 98052 (206) 881-6781 Sheryl D. Paulsen	Job costing, general ledger, accounts payable, payroll; word processing, accounts receivable, estimating, fixed assets, spreadsheet, purchasing, warranty tracking, property management
Contract Micros, Inc. 5455 Buford Highway Suite A120 Doraville, Ga. 30340 (404) 452-0550 John Echterhoff	Estimating, digitizer takeoff system
Contractor's Management Systems 1760 Reston Ave. Suite 101 Reston, Va. 22090 (703) 435-3172 Bob Flint	Estimating
Cornerstones 54 Cumberland St. Brunswick, Maine 04011 (207) 729-6701 Peter Hollander	Scheduling, passive solar design, heat loss/system sizing
Data Consultants, Inc. P.O. Box 440637 Houston, Tex. 77244 (713) 578-5767 Larry Bailey	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, construction loan tracking

HARDWARE	AVERAGE COST	SUPPORT	SERVICE AREA	BUILDER USERS
IBM PC, Apple II, Radio Shack TRS-80 Models II, III, IV	$149/module	Hotline	National	255 developers and Realtors
CP/M 80 and 86 systems	$1,500/module	$300/year for hotline, $120/year/module for maintenance with $500 maximum	National	600+
Wang PC, VS systems, 2200 MVP	$2,000/module	Training, hotline, on-site visits installation at hourly charge or $100-$200/month	National	53
CP/M 80 and 86, MS-DOS and PC-DOS systems	$1,000	No charge for hotline during first year; $350/year thereafter	National	20
CP/M and MS-DOS systems	$4,000	$250/year after initial training, phone	National	1,000+ (total users)
IBM PC, PCXT, Radio Shack TRS-80 Models III and IV, Sharp PC-1500	$450/module	Hotline	National	100+
IBM System/34, 36	$17,000 for whole package	No charge for in-house training, hotline, updates, corrections; service contract available for additional services	National	3

VENDOR	APPLICATIONS
DataTrak 1700 Stierlin Rd. Mountain View, Calif. 94043 (415) 967-3911 Marketing	Job costing, general ledger, accounts payable, payroll, accounts receivable, billing, inventory
Dependable Computer Programs, Inc. 225 N. Arlington Heights Rd. Elk Grove Village, Ill. 60007 (312) 952-0229 Michaele Williams	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, billing
Desco Data Systems Inc. 4 New Park Rd. E. Windsor, Conn. 06088 (203) 627-5151 Jack Beaulieu	Job costing, general ledger, accounts payable, payroll, word processing, accounts receivable, estimating, spreadsheet, purchasing, inventory, scheduling, report writing, property management, development cost/amortization
Digital Equipment Corp. Continental Blvd. MK1-2/D12 Merrimack, N.H. 03054 (603) 884-5111 Joyce Znamierowski	Job costing, accounts payable, word processing, accounts receivable, estimating, scheduling, spreadsheet
ECOM Associates, Inc. 8634 W. Brown Deer Rd. Milwaukee, Wis. 53224 (414) 354-0243 Gary Koser	Job costing, general ledger, accounts payable, payroll, accounts receivable
Enercomp 757 Russell Blvd. Suite A3 Davis, Calif. 95616 (916) 753-3400 Martha Townsend	Energy use evaluation
Enterprise Computer Systems, Inc. IBM Bldg., Suite G-16 P.O. Box 10156 Jacksonville, Fla. 32247 (904) 399-3899 Irma Gavagan	Job costing, general ledger, accounts payable, payroll, estimating

HARDWARE	AVERAGE COST	SUPPORT	SERVICE AREA	BUILDER USERS
IBM PCXT and compatibles	$1,500-$2,000/module	No charge for training; hotline and other charges variable	National	1,000+
IBM PCXT, System/23, H-P 150, 250	$795-$3,000	Contract at $100-$160/month or $35/hour provides training, hotline, upgrades, on-site visits	National	65
Contel-CADO	$4,000 and $15,000 for whole packages	$250/year for hotline	National	100+
DEC DECmate II, Rainbow 100	$500-$5,000	Toll-free hotline or on-site service depending on package for first year; charges vary thereafter	National	125+
IBM PCXT, Wang PC, 2200, DEC Rainbow, H-P 150	$1,200/module	$200/day training and installation, toll-free hotline	National	200
CP/M and MS-DOS systems	$850	90-day hotline	National	250 including architects
IBM PC, PCXT, Corona PC	$2,000/module	No charge for training day, corrections; $300 for quarterly service; $1,250 for optional 60-day correspondence course	National	500+

VENDOR	APPLICATIONS
IBM Corp. P.O. Box 2150 Atlanta, Ga. 30055 (800) 241-1620 Dept. 36	Job costing, general ledger, accounts payable, payroll, accounts receivable
Libra Programming Inc. 1954 E. 7000 S. Salt Lake City, Utah 84121 (801) 943-2085 Joan Kaiser	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, billing, inventory control, property management
Management Information Systems Group, Inc. 1710 Shadowood Lane Suite 220 Jacksonville, Fla. 32207 (904) 398-2244 Mike Haines	Job costing, general ledger, accounts payable, estimating, purchasing, scheduling, demographics-buyer profile
R.S. Means Co., Inc. 100 Construction Plaza Kingston, Mass. 02364 (617) 747-1270 Ann Miller	Estimating, takeoff and project costing, price lists
MertroSoft, Inc. 14241 Ventura Blvd. Suite 104 Sherman Oaks, Calif. 91423 (818) 783-3311 Michael C. LaTorre	Job costing, general ledger, accounts payable, accounts receivable, estimating, billing, check writing, variance reports
Metro Information Services, Inc. 4510 Holland Office Park Suite 507 Virginia Beach, Va. 23452 (804) 490-3501 Jim Corzatt	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, fixed assets/depreciation, purchasing, scheduling
PAC Corp. 1617 St. Mark's Plaza Stockton, Calif. 95207 (209) 951-8697 Richard L. Hughes	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, subcontract control, fixed assets, purchasing, financial reporting, billing, scheduling, bid analysis, union reporting

HARDWARE	AVERAGE COST	SUPPORT	SERVICE AREA	BUILDER USERS
IBM System/23, 34, 36	$2,000-$3,000; $175/ month to lease	Toll-free hotline	National	Unavailable
IBM PCXT	$2,000/module	No charge for training, phone for one year; service contract (about 10% of initial price) or time and material calls at $2/minute thereafter	National	1,100+
IBM System/34, 36	$11,500	Charge 10% of purchase price, provides hotline, enhancements	National	18
IBM PCXT, Wang PC, DEC Rainbow	$1,200-$8,000	Training, toll-free hotline; charges for other services vary by package	National	210
IBM PCXT	$7,000	No charge for 16 hours on-site training, 90 days toll-free hotline, updates via modem for one year; $200/year thereafter for same services	National	150-200
Wang VS25-VS300	$18,000	Toll-free hotline, 100-person staff available on a time and materials or fixed-price basis	U.S. and Canada	6
IBM System/34, 36, Fortune 32:16	$1,500-$5,000	Hotline, modem hookup for assistance and modification, enhancements; fee varies with system and service	National	35

VENDOR	APPLICATIONS
Premier Software Services, Inc. 1700 K St. Bakersfield, Calif. 93301 (805) 327-0495 Frank Colatruglio	Payroll
Prosoft, Inc. 3655 Henderson Blvd. 2-B Tampa, Fla. 33609 (813) 877-4341 Bill Streit	Job costing, general ledger, accounts payable, payroll, accounts receivable
Small System Design, Inc. 1120 Oakdale Place Boulder, Colo. 80302 (303) 442-9454 Susan Penny	Job costing, general ledger, accounts payable, payroll, accounts receivable, billing, scheduling
SofTrak Systems 1977 W. North Temple Salt Lake City, Utah 84116 (801) 531-8550 Mark Bodell	Scheduling
Software Factory 4851 Keller Spring Suite 209 Dallas, Tex. 75248 (214) 248-8823 Kent Gryzich	Warranty tracking, sales system, scheduling
Software Shop Systems, Inc. 960 Holmdel Rd. Holmdel, N.J. 07733 (201) 946-8900 Joan Peterson	Job costing, general ledger, accounts payable, payroll, accounts receivable, spreadsheet interface
Software Technology Corp. 6095 Lake Forrest Place Suite 150 Atlanta, Ga. 30328 (404) 843-0296 Joel Blackford	Job costing, general ledger, estimating, takeoff, billing, scheduling

HARDWARE	AVERAGE COST	SUPPORT	SERVICE AREA	BUILDER USERS
Apple II and compatibles	$700	Toll-free hotline; $100/year for updates	National	10
Most MS-DOS, CP/M, MP/M systems	$995/module	$35/hour for training; no charge typically for updates and revisions	National	125+
IBM PCXT and compatibles	$3,500 for package; extra programs $500	No charge for hotline, electronic bulletin board; charge for on-site setup	National	135
Wang VS, PC, IBM PCXT and compatibles	$600/module	On-site training, hotline; fee variable	National	150+
MS-DOS and CP/M systems	$995 for package	Hotline	National	100
IBM PC	$13,000-$15,000	No charge for 60-day installation, training period; variable-fee service contract thereafter	National	50+
CP/M, MS-DOS systems	$1,500/module	Fee for training, hotline, on-site visits	National	Unavailable

VENDOR	**APPLICATIONS**
Sumicon, Inc. 17862 E. 17th St. Tustin, Calif. 92680 (714) 730-6061 Walter Schramm	Job costing, general ledger, accounts payable, payroll, accounts receivable, inventory, design
Techsonix Corp. 2251 San Diego Ave. Suite #A141 San Diego, Calif. 92110 (619) 296-6313 Jerry Yellin	Estimating, digitizer takeoff
Timberline Systems 7180 S.W. Fir Loop Portland, Oreg. 97223 (503) 644-8155 Ted Feierstein	Estimating
The Office Manager (TOM) Software 127 S.W. 156th Seattle, Wash. 98188 (206) 246-7022 John Unck	Job costing, general ledger, accounts payable, payroll, estimating, fixed assets, financial statements, purchasing, inventory, scheduling
Frank R. Walker Co. 5030 N. Harlem Ave. Chicago, Ill. 60656 (312) 867-7070 P.J. Sammartino	Estimating
Westminster Software, Inc. 660 Hansen Way Suite 2 Palo Alto, Calif. 94304 (415) 424-8300 Chris Jensen	Job costing, scheduling
Wilson Computer Services 5151 San Felipe Suite 1500 Houston, Tex. 77056 (713) 993-9391 Ken Miller	Job costing, general ledger, accounts payable, payroll, accounts receivable, estimating, purchasing, spreadsheet, inventory, plan, option and elevation data base

HARDWARE	AVERAGE COST	SUPPORT	SERVICE AREA	BUILDER USERS
Sumicom 330, 830	$550/module	No charge for training, hotline	National	Unavailable
CP/M and MS-DOS systems	$9,990	No charge for training	International	150
T.I. Models 300, 600 and 800	$8,500-$13,900; $50-$250/month to lease	Toll-free hotline; charge for maintenance and support after first year	National	Unavailable
Altos 586 and 68000, Apple Lisa 2, Fortune 32:16, Pixel 80 and 100, Plexus 35 and 60, Zilog 8000, H-P 9000, Perkin Elmer 3200, Prime 50, Wang 2200	$800-$3,500	Services and charges determined by representatives	International	850
IBM PC and PCXT; Commodore 64, Apple II Plus and IIe, Kaypro II, 4 and 10, Epson QX-10	$700/module	No charge for hotline, revisions and updates; after first year, only phone service available	National	50+
CP/M and MS-DOS systems	$700-$900/module	Toll-free hotline; after 90 days, upgrades cost 10% of purchase price	National	Unavailable
Wang VS and Prime	$3,000-$10,000	Charge for maintenance, programming design	National	3

crease membership by 10 percent during the course of the membership year.

Then, in August, HBAs will participate in a one-week membership recruiting effort sponsored by NAHB's membership services department.

Prizes will be awarded to top members and auxiliary recruiters and to HBAs. Auxiliaries are assisting many local HBAs by compiling lists of prospective members, preparing kits, promoting membership drives and recruiting new members.

LOCALS AT WORK

- Builder members of the HBA of Greater St. Louis are experimenting with a weekly advertising insert in the local paper that they hope will attract more buyer attention than the traditional spot classified ads in the paper's real estate section.

The 40-page *St. Louis New Home Folio* sports a color cover and a neatly designed layout of black and white ads describing projects by area builders. The insert, which appears in the *St. Louis Post Dispatch*, does not go to the entire *Post* circulation, but reaches approximately 319,000 of the area's potential home buyers.

The first insert appeared on April 29 and, although poor weather has prevented an accurate indication of the impact, builders and the HBA are enthusiastic. The plan is to continue the inserts through the building season and to solicit advertising from associate members, such as title companies and lenders. The insert has prompted the rival *St. Louis Globe Democrat* to offer builders reduced rates on ads that have appeared in the insert.

The HBA promoted the new advertising program with a series of 30-second radio announcements and 10-second TV commercials, as well as an ad in the *St. Louis Dispatch* that listed all the builders advertising in the insert. The HBA also provided the "seed" money for the project, and created a wholly owned subsidiary—the St. Louis New Home Folio, Inc.—to operate the program. Two local companies are handling production and ad sales.

- The Home Builders Association of Indiana has been helping its members in an unusual manner: It sets up one-on-one meetings between a member with a problem in property management, for example, and a member with expertise in this area. Under the program, called HELP, a member with a business-related problem may contact William Carson, HBA executive officer, and request a conference with another member who specializes in the problem area. Carson will select the qualified member and a conference is then arranged. Assistance is provided for financing, management, land development, condominiums and materials problems. "The program is particularly useful to small builders," said Carson. "The program does of course help us to retain and recruit members, but in addition we look on it as one means of providing quality service to our members."

COLLEGE STUDENTS WANT TO BUY DETACHED HOMES

Many college students embrace the American dream of homeownership, but they think realizing the dream will be difficult. Those were among the findings of a nationwide survey of college students conducted by NAHB.

Buying a home was a top priority for nearly half (45 percent) the 1,324 students surveyed, but the students see high mortgage rates and home prices as serious obstacles to achieving this goal.

OBSTACLES TO BUYING A HOME

	Students' projections		
Obstacle	Major obstacle	Minor obstacle	No obstacle
High mortgage interest rates	77.0%	21.3%	1.3%
Home prices	65.3	32.1	2.7
Raising cash for down payment	35.9	48.4	15.7

The survey was conducted at nine universities with the cooperation of professors in the real estate or business management departments. Most of the students surveyed (79 percent) listed building equity as the most common reason for owning a home, followed by tax advantages (55 percent) and pride of ownership (38 percent).

However, about 80 percent of the students said that buying a home will be "somewhat to very difficult." Two-thirds, on the other hand, felt renting an affordable apartment would be easy.

When asked what type of house they would be most likely to buy, more than half indicated a single-family detached home, followed by condominium apartments and townhouses. Most—88 percent—want to live in the suburbs.

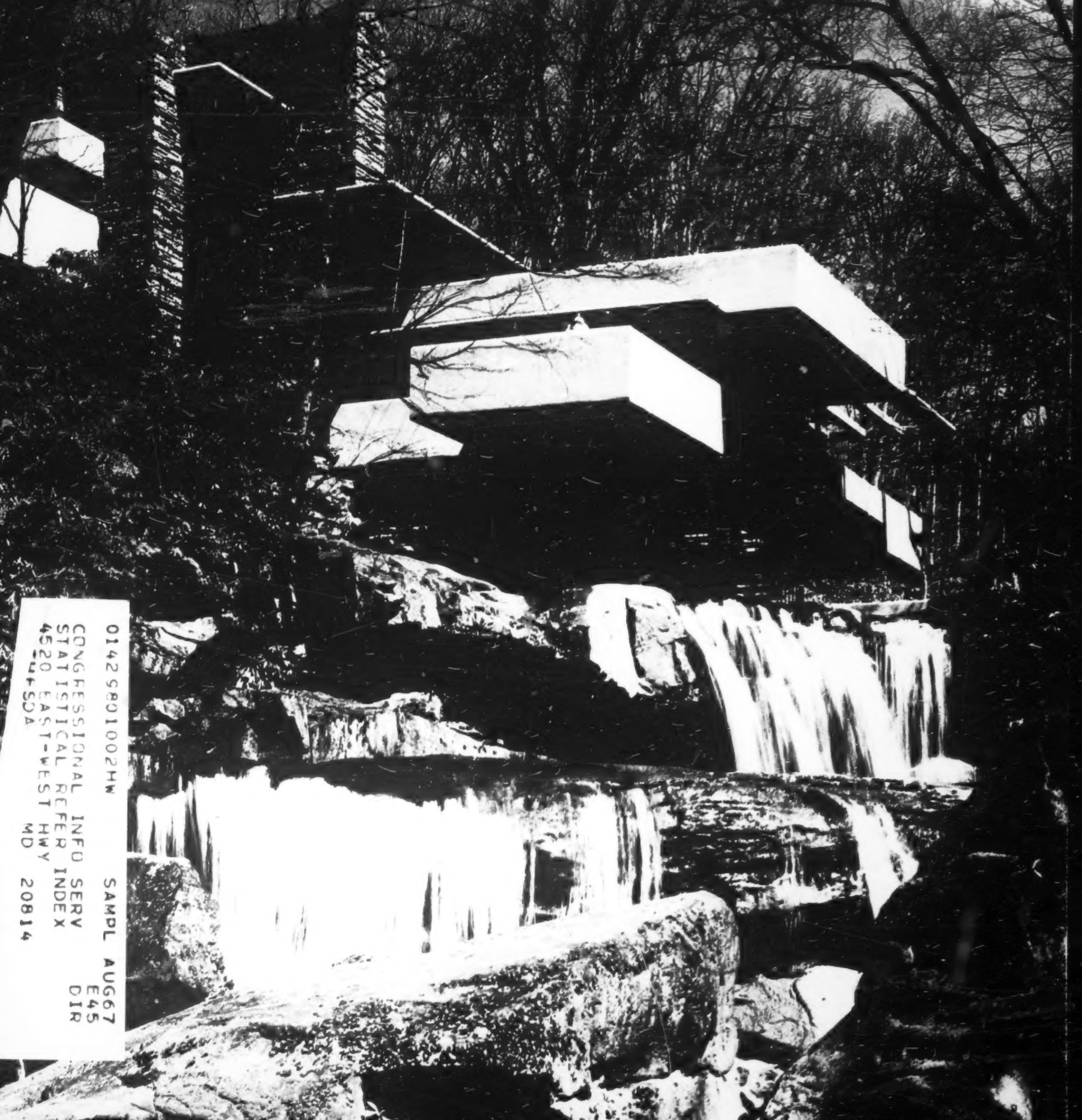
Other survey findings:

- Two out of every three students surveyed believe they will be able to buy a home equal to or exceeding the value of their parents' home;
- Almost 60 percent listed personal savings as the principal source for their down payments; another 22 percent indicated a gift or loan from a relative would be the primary source;
- About 56 percent said that they would be willing to pay 25 to 30 percent of their income for housing expenses when purchasing a home; 16 percent were willing to pay less than 25 percent; and 28 percent were willing to pay more than 35 percent;
- More than half expect to pay between $300 and $500 a month for housing after college; about 18 percent believe they will be able to pay $500 to $600 a month; and the same percentage expect to be able to pay more than $600 a month.

Nearly three out of four students expressed a preference for fixed-rate mortgage plans.

BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
AUGUST 1984



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VOLUME 7, NUMBER 8 ■ AUGUST 1984

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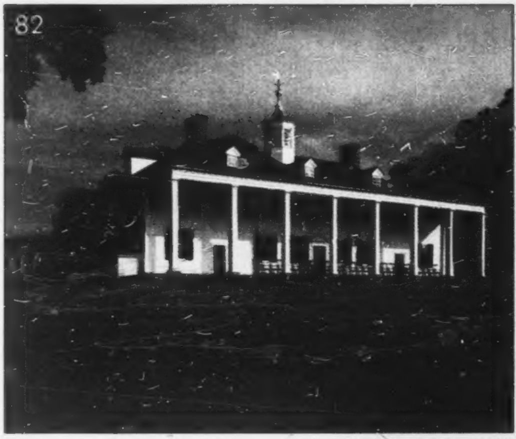
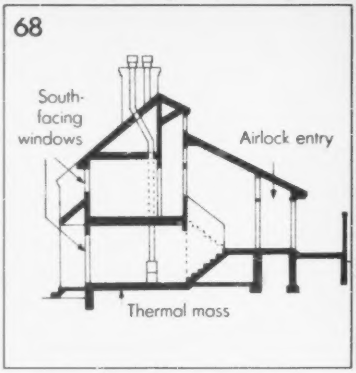
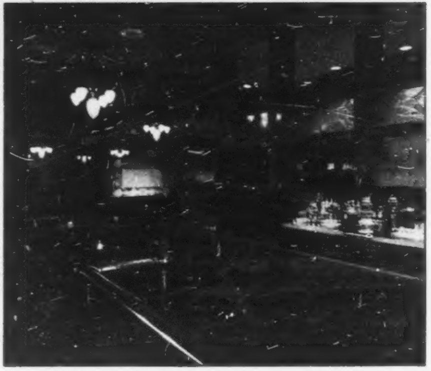






68—ENERGY HYBRIDS

Builders around the country are warming up to the idea of using not one energy-saving system but a combination tailored to the design and site of the units.

76—MR. BUILD

Remember that name. Art Bartlett is betting that Mr. Build—the name of his building services franchise—will become a household word.

82—ORIGINALS

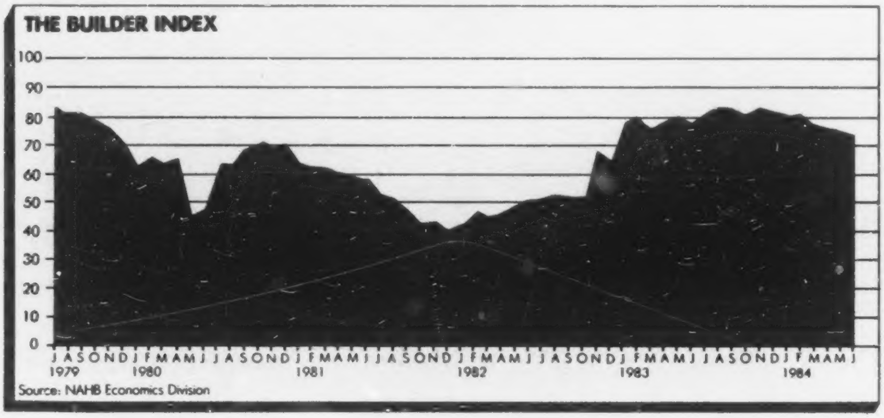
Why do American houses look the way they do? A collection of 10 famous houses that charted the course for American housing design.

(Cover: Fallingwater, Bear Run, Pa. Photo: Ezra Stoller, copyright ESTO)

96—PROJECT OF THE MONTH

Beneath the grime and slapdash changes on the Schneider Block in Durango, Colo., was a gem of a building to rehab. No fool's gold, this.

OUTLOOK
A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



The BUILDER Index dropped sharply to its lowest level in almost a year and a half—74.80—indicating a slowdown in future housing activity.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Taxing Problem

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

Interest rates, to a large degree, determine what happens to housing. The federal deficit, in turn, will determine what happens to interest rates.

Whether or not Congress tackles the problem at all in the current session, a long-term solution to the deficit must be found. The solution probably will involve cutting expenses and raising revenues, but striking the right balance won't be easy.

As the problem-solving process begins—and it won't go into high gear until after the election—there is some general agreement about the nature of the problem. It's commonly accepted that:

- Economic growth and the corresponding increase in tax revenues can't single-handedly solve the deficit problem;
- Spending cuts by themselves won't solve the problem. A tax increase is necessary;
- The share of government spending must drop from the current 24 percent of GNP to about 20 percent. At the same time revenues should increase from the current 19 percent of GNP to 21 percent;
- Interest rates are too high—even the President and the Secretary of the Treasury agree. They inhibit economic growth and are pushing the international debt situation to the brink of disaster;
- Printing more money won't solve anything.

A paper by economists Henry J. Aaron and Harvey Galper of the Brookings Institution, a think tank in Washington, D.C., states that the present tax system distorts investment, compensation and savings, penalizes work, is appallingly complex and is blatantly unfair.

Aaron and Galper propose that people be taxed on their cash flow, not their income. This way each person will be taxed on all cash receipts, minus savings. The top rate would be 32 percent with a deduction equal to the poverty-level income.

Corporations would be taxed at the top personal rate on their receipts (including borrowings) minus current expenses including investments (but not dividends).

The Brookings proposal also advocates the immediate enactment of a broad-based temporary surtax on personal and corporate income.

But all of this really ignores political reality in Washington. The Brookings proposals are too painful for too many powerful groups.

Most European countries have moved from income taxes into a consumer tax, better known as the value added tax. Today this tax accounts for about one-sixth of total government revenue among the countries of the European economic community. The value added tax is a sales tax levied at each stage of production on "value added"—that is, the difference between total sales and the cost of goods and services purchased from others. In its pure form the value added tax is a tax on all consumption, and it has the same effect as a retail sales tax.

Proponents in this country, particularly former Under Secretary of the Treasury Charles E. Walker, estimate that a 1 percent value added tax would raise about $25 billion in additional revenue. Most proposals would set a cap on the percentage of a value added tax. This, Walker said, would have to be done by Constitutional amendment. Introduction of a value added tax should be accompanied by a gradual reduction in individual and corporate tax rates. A corporate income tax is an anomaly in any case. It is not paid by corporations, but by the consumers. As such it distorts capital formation and provides less money for labor.

Most proposals for a value added tax have suggested taxing about 50 percent of all consumption, which more or

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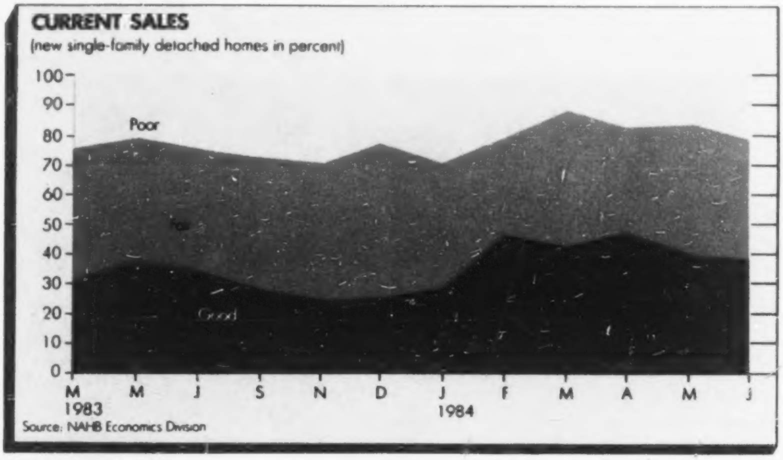
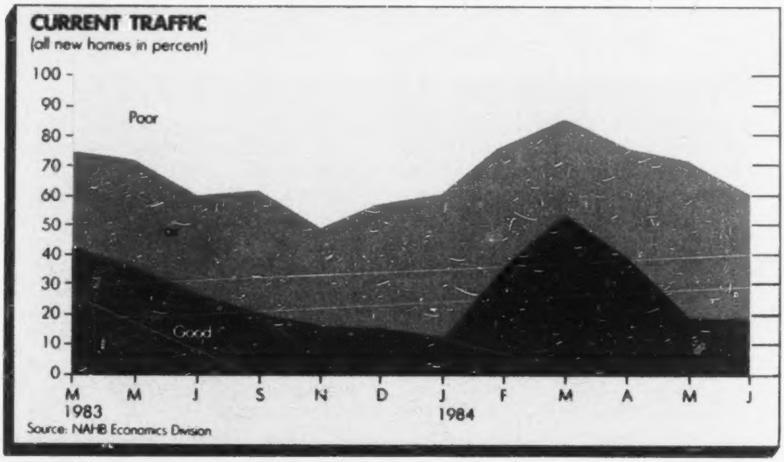
OUTLOOK/BUILDER POLL



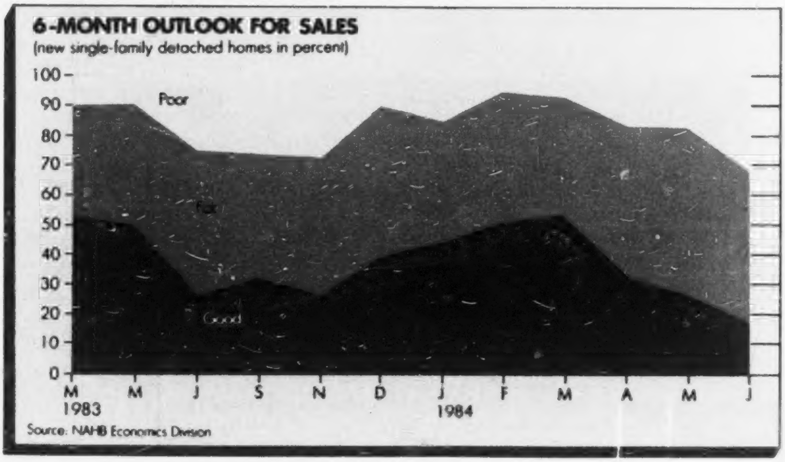
CURRENT SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division



CURRENT TRAFFIC
(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division

INTEREST RATE BLUES

Every increase in interest rates lowers builders' expectations. That's clear from the results of the June BUILDER poll.

In March, when interest rates had just begun to increase, about 90 percent of the builders surveyed were predicting good to fair sales for the next six months. By June only 68 percent were projecting good to fair sales, and the percentage expecting a poor market for new single-family homes had increased from 9 percent in March to 32 percent.

The expected downturn in sales hadn't really hit home yet, however. In June about 80 percent of the builders still said sales were fair to good. But a builder from Pennsylvania best expressed the consensus outlook: "Right now, it's not bad," he said. "Come October and on, though, we look for very bad times."

Interest rates are seen as the culprit. A Florida builder said, "Rates go up. Sales go down." While a California builder said, "Interest rates are about 2 percent too high for a good market."

While rising rates haven't stopped sales yet, they have caused traffic to slow significantly. Traffic was rated as poor by 40 percent of the builders, compared with 30 percent in May, 24 percent in April and only 15 percent in March.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

RESALES DOWN SLIGHTLY

Existing single-family home sales slipped slightly in May to an annual rate of 3.05 million, the National Association of Realtors (NAR) reported. It was the first decline in five months. However, the May pace was still 7% higher than a year earlier and 62% higher than the recession low of 1.9 million resales recorded in August 1982. NAR expects a gradual slowdown in resale activity during the next 18 months.

SEC. 502 FUNDS SPRUNG

The outlook for rural housing activity improved recently when Congress eased restrictions on the Farmers Home Administration's Sec. 502 single-family program. Fiscal year 1984 funds had been tied up because of a requirement that 40% of the money go to very low-income borrowers who often were difficult to qualify. Because those funds had to be allocated at the same rate as the rest of the money, many builders couldn't use the program at all. To remedy the situation, the new law reduces the very low-income proportion to 30% and allows the two pots of money to be spent separately.

NON-RES BUOYS INDUSTRY

"The building industry is now depending on nonresidential markets to sustain volume as housing starts begin to fade," according to George Christie, vice president and chief economist for the F.W. Dodge division of McGraw-Hill Information Systems. "Prospects for a trade-off between housing and commercial-industrial building are good for the near future." As evidence of this he cited statistics showing a 12% rise in commercial-industrial building in April, most of which was due to another surge in office projects. "The office building boom, which peaked in 1981 as a Sunbelt phenomenon, is now being sustained in the more traditional commercial centers like Boston, New York City and Chicago," Christie said.

PRIME CONTINUES UPWARD

When the prime rate was raised to 13% in late June it was the fourth ½ percentage point increase since March and brought the rate to its highest level since October 1982.

DELINQUENCIES DECLINE

Mortgage delinquencies fell from 5.68% in the third quarter of 1983 to 5.48% in the first quarter of this year, reported the Mortgage Bankers Association. The level of mortgage loans entering the foreclosure process also dropped from 0.21% to 0.19% during the same period.

ONE MORE ARM

Yet another ARM has been introduced by Fannie Mae. Indexed to one-year Treasury bills, the interest rate will be adjusted each year but monthly payments will remain constant for five years. At the end of each five-year period, payments will be adjusted to amortize the loan over the remaining term. Because the new payment will be based on an average of interest rate changes during the five years, borrowers should receive some protection from sudden swings in interest rates. The new ARM includes a 2% cap on annual rate changes and a 4.5% cap on rate changes over the life of the loan. The initial rate equals the first year rate on Fannie Mae's standard one-year ARM.

MOVING ON UP

The baby boom generation, now middle-aged, will provide the next big stimulus to the housing market, according to Lawyers Title Insurance Co. This age group sparked demand for affordable starter homes in the 1970s and now wants to move up to larger, more expensive homes.

MORE MORTGAGE SECURITIES

Recent developments in the secondary mortgage market could boost investment in housing. Freddie Mac has introduced a new 15-year mortgage security designed to attract investors seeking intermediate-term investments. The pass-through security is backed by mortgages with maximum original maturities of 15 years. Freddie Mac also has taken the first step toward initiating a conventional multifamily security which could make more money available for multifamily housing. The agency has agreed to buy $1 billion in multifamily mortgages from Financial Corporation of America in exchange for $1 billion in securities. The third recent development in mortgage securities is Ginnie Mae's new ARM security which will finance the new FHA-insured ARM (see page 34).

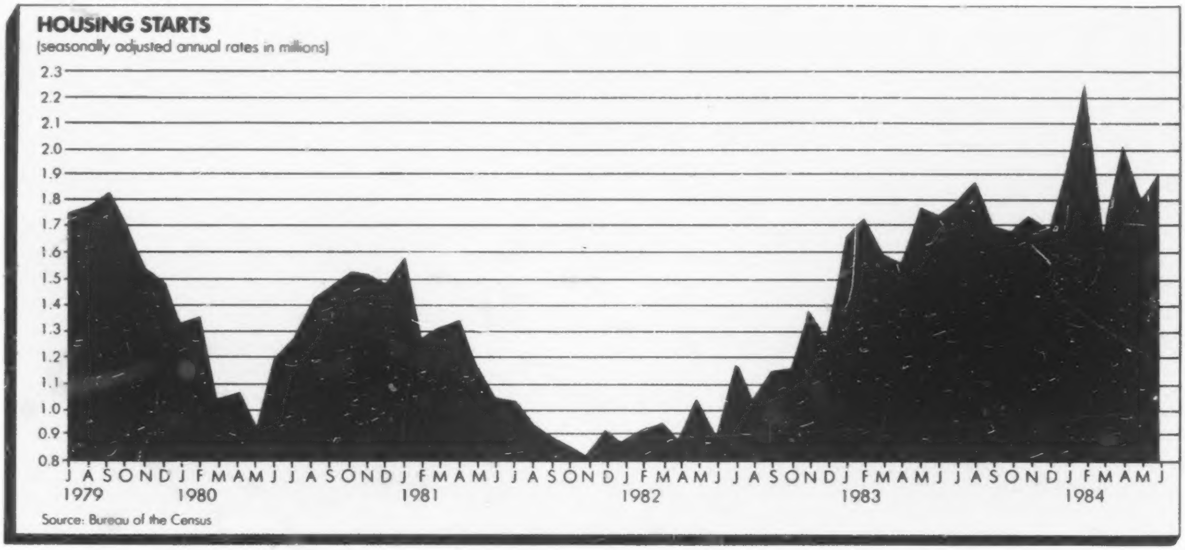
CONTINUED FROM PAGE 11

less is the way the value added tax is being used in Europe. In other words, it would not be totally comprehensive. The level of value added tax varies from country to country and from item to item. For example, in Austria the basic rate is 18 percent, but it varies from only 8 percent on food to 30 percent on automobiles to 13 percent on energy products.

In West Germany the value added tax was raised a percentage point last year to 14 percent to promote investment. This extra revenue was designated to reduce the trade tax and the tax liability on loans for the construction of new owner-occupied homes, to help companies threatened by insolvency and to finance individual housing accounts at building and loan associations.

I am sure we will hear much more about the consumption tax after the elections. One way or another people are getting the message that there is no easy, quick solution to our deficit dilemma. Both parties have to work together to get us out of this mess. Even then it seems almost inevitable that some form of a consumption tax will be added: inevitable because of our inability to cut significantly the ever-increasing federal budget.

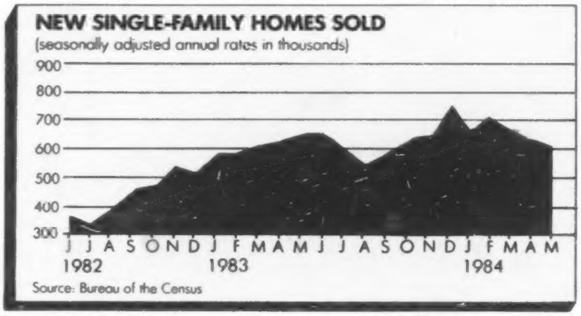
OUTLOOK/STATISTICS


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

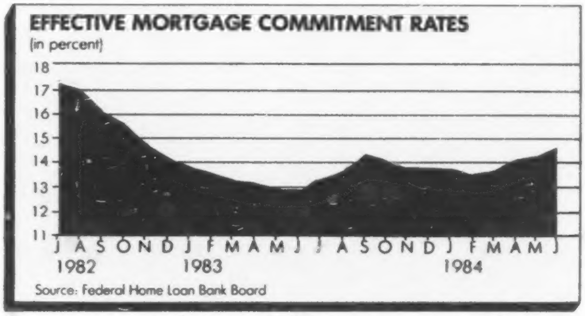
Thanks to a spurt in multifamily construction, starts rose 5.3% in June to an annual rate of 1.9 million units from an upwardly revised May rate of 1.8 million. Single-family starts declined for the second straight month to 1.07 million, a drop of 7%, but multifamily starts surged 27% to 832,000.


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

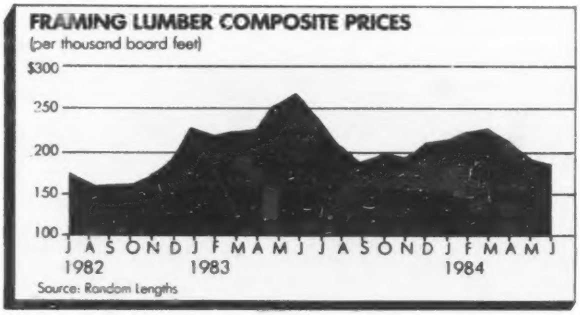
Sales dipped 4.4% in May to an annual rate of 612,000. It was the third consecutive monthly decrease. The May sales rate was down 6% from a year earlier.


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

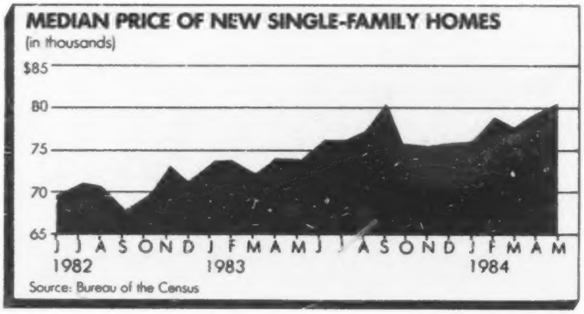
Mortgage rates jumped in June—the fourth rise in as many months. Commitment rates on long-term, fixed-rate mortgages climbed 41 basis points to 14.76%; uncapped adjustable rates rose to 12.84%.


FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices declined in June for the third consecutive month. The composite price slipped 2.6% to $188 per thousand board feet. The June price was 28% lower than a year earlier.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median price of new homes increased by $1,500, or 2%, in May to $80,900. The May price was 8.6% higher than a year earlier.

SURVEY

SINGLE-FAMILY HOMES ARE GETTING BIGGER

Single-family homes are back and getting bigger, according to the latest annual survey of housing trends by RAMS Marketing Inc., New York City.

Based on responses from about 50 of the country's largest volume builders, the study found that single-family houses dominated last year, accounting for nearly 60 percent of the respondents' activity. More than two-thirds of them produced single-family units last year, and 83 percent are doing so this year. In addition, 29 percent built only singles last year and a like number expect to do so again this year.

The pendulum also is swinging back to larger houses, the big builders reported. Where the average single-family house sold last year was 1,482 square feet, this year the average size is projected at 1,598 square feet, an increase of 207 feet.

By price category, homes in the $40,000 to $60,000 range, which represented 19 percent of the respondents' market last year, averaged 1,022 square feet. This year, they expect the size of houses in this category to increase to 1,058 feet but the bracket's market share to drop to 15 percent.

Medium-priced single-family homes—those priced between $60,000 and $90,000—accounted for a third of the respondents' sales, as did units in the $91,000 to $150,000 range. Sizes will be up in the higher price category, from 1,683 to 1,722 square feet, the survey found, but they will drop from 1,392 to 1,366 square feet in the lower bracket.

The most dramatic increases, however, were in the $151,000 to $200,000 price range. The responding builders said their market share in this range would jump from 6.5 percent last year to 15.5 percent in 1984, and that the average size of their most expensive products would increase from 1,917 to 2,171 square feet.

While these large builders expect bigger to be better, the survey also found that they're hedging their bets. Sixty-one percent of them are building condominiums this year, while only 39 percent did so last year.

SIZE OF SINGLE-FAMILY HOMES SOLD

	Square feet	
Price	1983	1984
$40,000 to $60,000	1,022	1,058.3
$61,000 to $90,000	1,391.9	1,365.6
$91,000 to $150,000	1,916.6	2,171.4
$151,000 to $200,000	2,500	2,500
$200,000 or more	3,200	3,200

Source: RAMS Marketing Inc.

Other findings of interest:

- Almost two-thirds of the respondents used buy-downs and cash discounts last year. Cash discounts averaged 5.43 percent of the purchase price.
- Forty-one percent also are active in the rental market, up slightly from 1983. And their rental units will be larger—up from 881 square feet last year to 893.5 square feet this year.

REMODELING

NEARLY HALF THE NAHB BUILDERS DO REMODELING

Remodeling is big business with builders, and not just in tough economic times: NAHB estimates that 40 percent of its builder members currently are doing residential or commercial remodeling.

One reason is the remodeling market's relatively consistent good health; the national prognosis, according to 91 percent of the 186 remodelers surveyed by NAHB's Remodelors Council in its third quarterly economic survey, is for a continued healthy remodeling market at least through the fall.

That optimism was tempered, however, by concern over the effect year-end interest rates will have on consumer financing. "You don't see the kinds of peaks and valleys of activity in remodeling that you see in new construction," said Bryan Patchan, executive director of NAHB's Remodelors Council, "but the remodeling market has become more sensitive to interest rates in the last few years." The survey reflected that sensitivity: While 22 percent of the builders think the availability of affordable consumer financing is poor now, 35 percent expect it to be poor by fall.

A smaller number of those surveyed—about 15 percent—also expect labor or materials to be scarce by late in the year.

Builders were most optimistic about the market for home additions and alterations, as well as maintenance and repair jobs: 91 percent rated those businesses fair or good through the fall. The outlook was only slightly less optimistic for renovation and rehab, with 80 percent of respondents predicting these jobs would be plentiful.

The survey also showed that remodelers are concerned about their industry image. About 80 percent "strongly supported" establishing construction quality standards for remodeling as well as improving the consumer relations skills of contractors.

REMODELING ACTIVITY RATING FOR 1984

	Percentage of respondents by region				
Rating	Northeast	North Central	South	West	Total
First quarter					
Good	79.1%	48.6%	69.2%	36.0%	56.7%
Fair	20.8	40.5	30.7	44.0	34.5
Poor	0	10.8	0	20.0	8.7
Through third quarter					
Good	73.9	51.5	73.5	54.1	63.2
Fair	21.7	39.3	26.4	25.0	28.4
Poor	4.3	9.0	0	20.8	8.2

Source: National Remodelors Council Economic Survey

BUILDER

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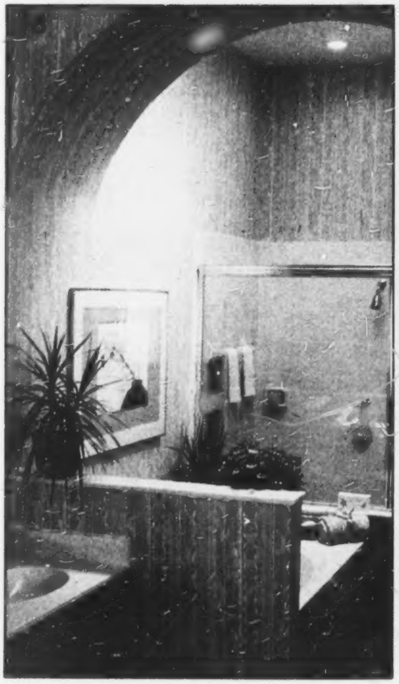


76—BIG SPLASH

Baths used to be no more than functional. Now they're often the splashiest room in the house.

88—FIRST CHOICE

Townhouses and duplexes traditionally have played second fiddle to single-family homes. But attached units that are priced right and well designed are becoming the first choice for many first-time buyers.

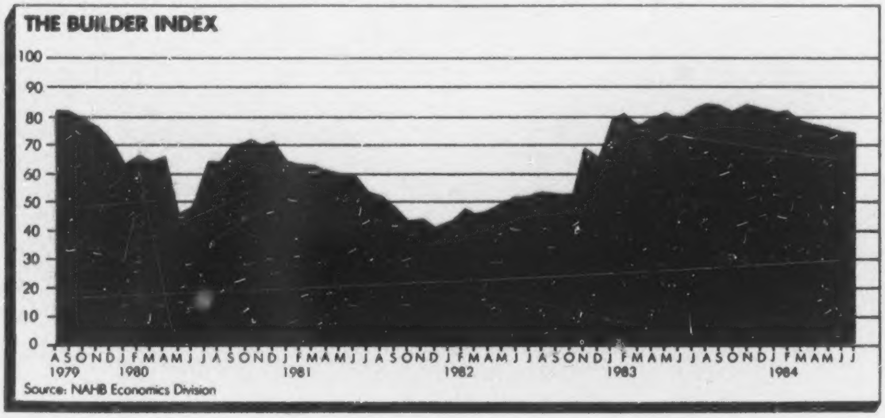
102—PROJECT OF THE MONTH

A builder for 13 years but still a carpenter at heart, Robert Murphy also is something of a gambler. He bought a tricky site, then built snazzy townhouses in a proper New England Village. (P.S. His gamble paid off.)

(Cover: Centre Village, Madison, Conn. Photo: Fred Paton)

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

For the fourth month in a row the BUILDER Index declined. At 74.12 it is at the lowest level since December 1982.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Poised For A Fall

Michael Sumichrast
NAHB chief economist, Washington, D.C.

More than 900,000 new housing units were started in the first half of this year. At least 100,000 fewer units will be started during the second half.

All signs point to a decline of that magnitude. The single-family market already has slowed down. New home sales have declined for four consecutive months; starts have leveled off. The inventory of unsold existing homes is up 11 percent above a year ago.

Then there are mortgage interest rates, which are closing in on 15 percent. Every new increase makes it more difficult to sell homes. For example to qualify for a $72,000 mortgage at 14 percent an income of $40,900 is necessary; at 15 percent income must be $43,400. That 1 percent increase disqualifies about 2.3 million potential buyers.

Look for the single-family housing market to decline into 1985. This year singles should account for about 65 percent of all new units, or 1.12 million starts. That compares with 1.068 million single-family starts in 1983. Multifamily starts should reach 622,000 units, compared with 635,500 last year.

The best we can expect for next year is a drop in total starts to about 1.5 million units, a 14 percent decline.

Assuming my forecast is correct, the next question might be why are housing starts still so high when interest rates have shot up by more than 2 percentage points since spring? (In June starts actually increased to 1.9 million units at an annual rate, up from the 1.8 million units in May.)

An analysis shows that the current strength of the market is multifamily housing. The average multifamily starts rate increased by 11 percent between the first and second quarters of this year while single-family starts dropped 11 percent. The reason: Singles are more sensitive to the rise and fall of interest rates than multifamily units.

There are other reasons for housing's strength during the first half of the year. Many builders had forward commitments and, in most cases, they went ahead and used them. Why not? The commitments usually carried lower

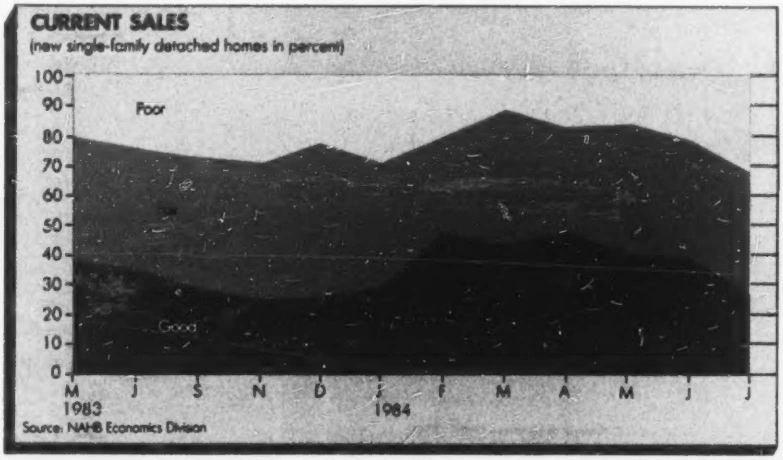
CONTINUED ON PAGE 13

TOP 10 STATES IN HOUSING STARTS

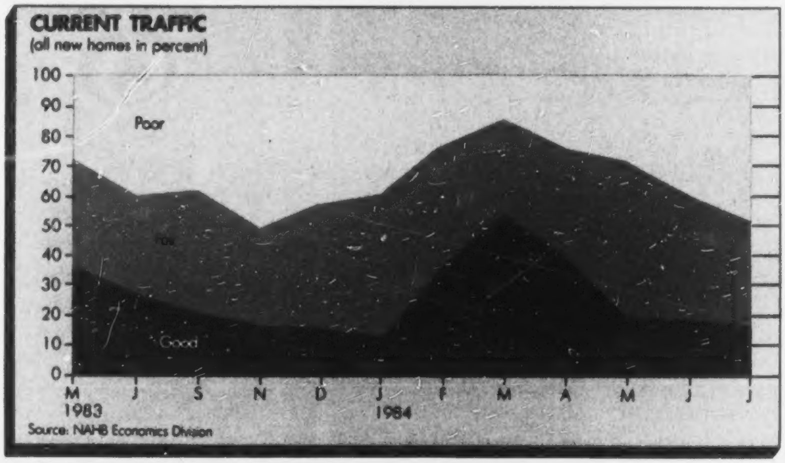
Rank	State	1983 starts	Rank	State	1984 starts
1	Texas	317,500	1	Texas	320,000
2	Florida	180.400	2	Florida	191,400
3	California	165,900	3	California	177,800
4	Georgia	72,200	4	Georgia	80,600
5	Arizona	62,400	5	Arizona	62,400
6	Virginia	53,800	6	North Carolina	60,000
7	North Carolina	33,600	7	Virginia	59,900
8	Oklahoma	50,200	8	Oklahoma	52,000
9	Colorado	49,800	9	Pennsylvania	50,700
10	Louisiana	40,200	10	New Jersey	49,800

Source: NAHB Economics Division, Econometric Forecast

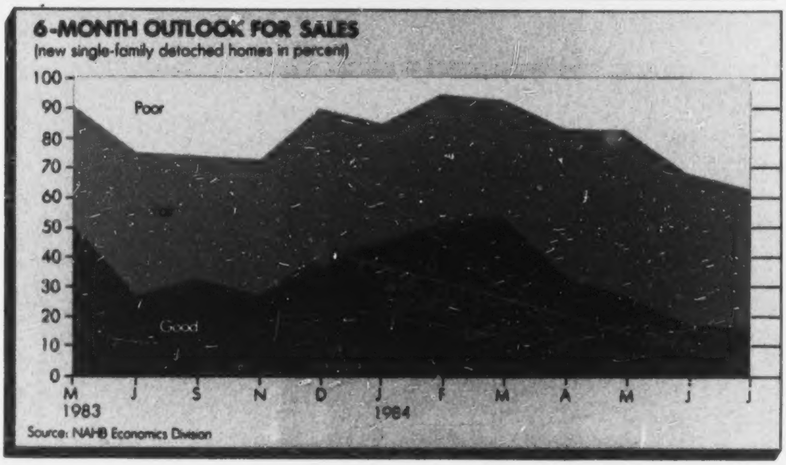
OUTLOOK/BUILDER POLL


CURRENT SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division


CURRENT TRAFFIC
(all new homes in percent)

Source: NAHB Economics Division


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division

DECLINE EXPECTED

Almost all the comments of builders who responded to the July BUILDER Poll relate to one sore subject: interest rates and their negative effect on housing. An Ohio builder may have summed up best the cause and effect relationship builders see between interest rates and housing. He said, "The market is lousy, and interest rates are responsible."

A North Carolina builder was even more direct. "I am scared to death," he said.

While rising interest rates haven't terrified everyone, they have slowed sales and lowered builders' expectations dramatically. For the fourth consecutive month builders' six-month expectations for new home sales declined (bottom chart), and for the first time in about a year and a half a significant percentage of builders—33 percent—reported that present home sales were poor (top chart).

The percentage of builders who expected sales to be good has declined from a peak of 53 percent in March to only 16 percent in July—the lowest level in two years—while the percentage expecting poor sales has increased from less than 10 percent to almost 40 percent—the highest level in two years.

Traffic also has dropped off (middle chart). In July fewer than one of five builders said buyer traffic was good; about half were reporting good traffic in March.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

BACK TO THE CITY

Metropolitan areas are claiming a greater percentage of housing starts during the current recovery than non-metropolitan areas, according to Chase Econometric Associates. Last year, starts in metro areas jumped 72% from the year before while starts in non-metro areas grew only 27%. And the trend continues. During the first five months of this year, metro starts increased 19% over the same period last year, but non-metro starts declined slightly. Metro starts currently account for 82% of all starts, up from about 70% in the mid to late 1970s. This increase, according to Chase, reflects net population movement back to metro areas and, to some extent, frenetic apartment construction by real estate syndications.

RATES TO HIT 16%

Mortgage rates on conventional fixed-rate loans could hit 16% by year-end, predicts Housing Industry Dynamics (HID). Nevertheless, the research and forecasting company expects a "very mild" housing slowdown, with starts for the year totaling 1.76 million and dipping 6% next year to 1.66 million. HID anticipates another decline of 3% in 1986 to 1.61 million starts. But after that the boom is back with a forecast of 1.8 million starts in 1987.

MAKE THAT 15%

Of course, that's not the only forecast in town. The Economic Advisory Board of the National Council of Savings Institutions believes that fixed mortgage rates will rise no higher than 15% by year-end, edge up a little bit more by the end of the first quarter of 1985 and then retreat about half a percentage point by next summer. This group also expects starts to hold up well, slipping to an annual rate of 1.6 million by year-end and staying at that level for the first half of 1985. Why? Because rates on ARMs will be lower than fixed rates and—thanks to deregulated rates on savings—S&Ls will be much better able to hold on to deposits this time around.

SYNDICATION SALES SOAR

Sales by public real estate syndications continued to soar during the second quarter, rising 38% above the first quarter total to $1.6 billion, according to Kenneth Leventhal & Company.

SLOW GROWTH, NO GROWTH

The U.S. population will grow more slowly from now on and will virtually stop increasing halfway through the next century, according to new projections by the Census Bureau. As a result, the population is about to start aging rapidly. The median age is projected to increase from 30.6 in 1982—an all-time high—to 36.3 in the year 2000. The population aged 65 and over will rise from 27 million in 1982 to 35 million in 2000.

RESALES SLIDE AGAIN

Sales of existing single-family homes declined 2.3% in June to an annual rate of 2.99 million units, reported the National Association of Realtors (NAR). Although it was the second straight month of decline, June resales were still 6% higher than in June 1983. Resales were down in all regions but the West, where activity increased 7%. And the inventory of unsold existing houses at the end of June remained at a 10.6-month supply. NAR also reported that the median price of existing single-family houses rose $1,100 in June to $74,200, nearly 4% higher than the median price in June 1983.

CONTINUED FROM PAGE 11

interest rates. Plus it's hard to stop construction. Once begun, building tends to continue, in part because builders are eternally optimistic.

As always the housing boom has benefitted some regions more than others. The South should account for 52 percent of all new starts, the West for 21 percent, the North Central for 15 percent and the Northeast for 12 percent.

Three states lead the nation: Texas, Florida and California. This year these three states will account for 40 percent of all new starts; the top four will account for 45 percent and the first six will account for 51 percent of all new units (see table, page 11).

Of the top 10 metropolitan housing markets, six are in the South and four are in the West. The Dallas-Fort Worth metropolitan area continues to be number one in total starts, even though starts this year will decline about 20 percent from 1983. Last year an unbelievable 112,500 new units were built in Dallas-Fort Worth. A drop this year to about 90,000 units still will leave this area with nearly twice as many starts as the second ranking city, Atlanta. It's projected that Atlanta will start 49,700 new units this year.

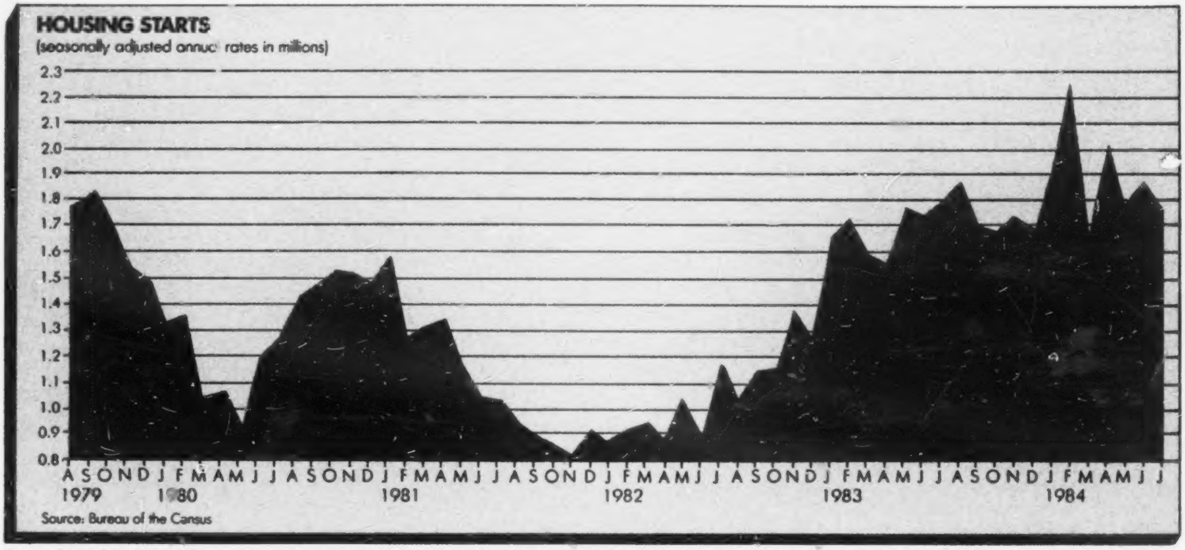
The Houston market, while still comparatively robust, is losing ground. It's dropped from second to fourth. Meanwhile Atlanta and Phoenix have moved to second and third places, due to large surges of employment in those areas. Washington, D.C., is in fifth position among the top 20 metropolitan areas in housing starts.

Of those 20 areas, only four had unemployment rates above the national average of 7.7 percent. The unemployment rate during March 1984 was only 3.9 percent in Dallas-Fort Worth, down from 5.8 percent a year ago. During the same time the number of employed in Dallas-Fort Worth increased by 138,830, or 8.4 percent.

Unfortunately that kind of robust growth is restricted to a few markets. In other areas interest rates, not employment rates, are the key variable. I expect interest rates to increase into 1985, and that makes me believe housing production peaked in the first quarter of this year. In the second quarter starts dropped 4 percent and further decline seems inevitable.

Builders who responded to the June and July BUILDER Polls expressed deep concern about high interest rates. Maybe it's time for builders and other users of credit to stand up and say rates are unreasonably high.

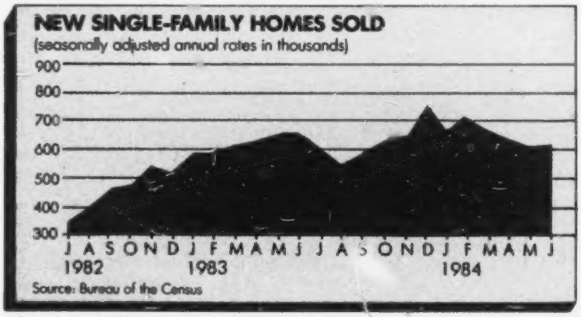
OUTLOOK/STATISTICS



HOUSING STARTS
(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

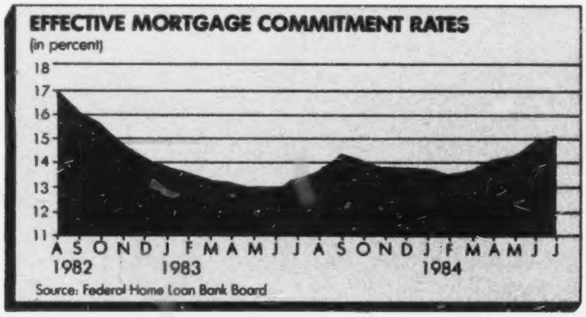
Starts dipped 6.6% in July to an annual rate of 1.76 million units, but single-family starts dropped 10% to 982,000—the lowest rate since December 1982. Multifamily starts slipped 2% in July to 779,000, despite a rise in 2-4 family construction.



NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

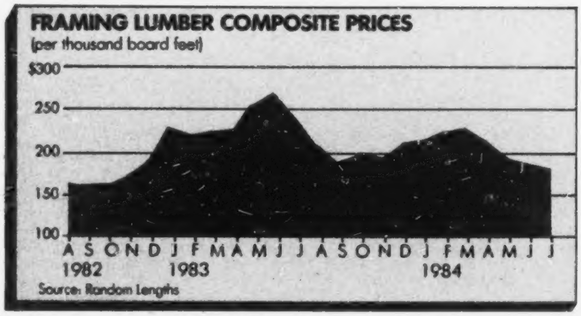
After declining for three months, sales increased very slightly in June to an annual rate of 620,000 from a revised May rate of 616,000. The June sales rate was 5.3% lower than a year earlier.



EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

Source: Federal Home Loan Bank Board

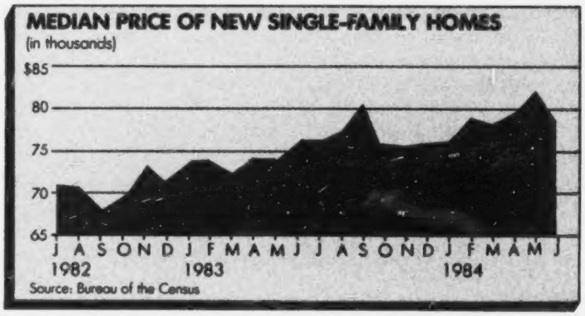
Commitment rates on long-term, fixed-rate mortgages rose 23 basis points in July to 15.20%—the highest level in more than a year and a half. Uncapped adjustable rates also rose 23 basis points to 13.18%.



FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

Lumber prices continued their decline, slipping to $183 per thousand board feet in July—the lowest price since November 1982. The July price was down 3% from June and was 24% lower than a year earlier.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median price of new homes dropped by $3,200, or 4%, in June to $78,900. That was 4% higher than a year earlier.

NEWS

ECONOMY

HOUSING IS HEADED FOR ANOTHER RECESSION

Here we go again. With the interest rate roller coaster once again heading for the hill, the housing market seems destined for another dip. But the drop should be shorter and shallower than last time.

"We're heading for another housing recession," predicted Michael Sumichrast, NAHB's chief economist, "but it should be somewhat moderate."

He and a number of other housing experts expect rates on fixed-rate mortgages to rise to roughly 16 percent before beginning to fall next summer.

"Interest rates will go higher than current levels," said Leonard Santow, a New York investment consultant, "but they won't reach the heights of the last recession." During the 1981-82 recession, the price of fixed-rate mortgages skyrocketed to an average of 17.5 percent while the prime rate steamed past 20 percent.

Despite Santow's reassurances, it's doubtful that many prospective home buyers would be able to tell the difference between a 16 percent mortgage and a 17.5 percent mortgage.

Climbing mortgage rates will reduce monthly housing starts to an annual rate of 1.4 to 1.5 million by the end of this year, according to the forecasters. Their predictions for next year range from 1.3 to 1.5 million starts, with the low occurring about mid-year.

Sumichrast, who, for a change, was the most optimistic of the bunch, believes starts will fall 15 percent next year. "I'm not overly pessimistic because housing has enough momentum to carry us into 1985," he said. "Is 1.5 million starts bad? It's better than the 1.06 million we had in 1982."

This housing recession should be less severe than the last one for a number of reasons.

"The most important reason housing won't fall as much this time is that we're just coming out of recession," explained Timothy Howard, chief economist for the Federal National Mortgage Association (Fannie Mae). "Because the recovery is still young, there is a residue of demand. And income growth and employment will hold up better this time."

Another big difference is that credit won't dry up as it did in 1981-82. Savings and loans have used up a big portion of the bonanza they reaped from deregulation, but Howard predicts commercial banks and mortgage bankers will continue aggressive lending.

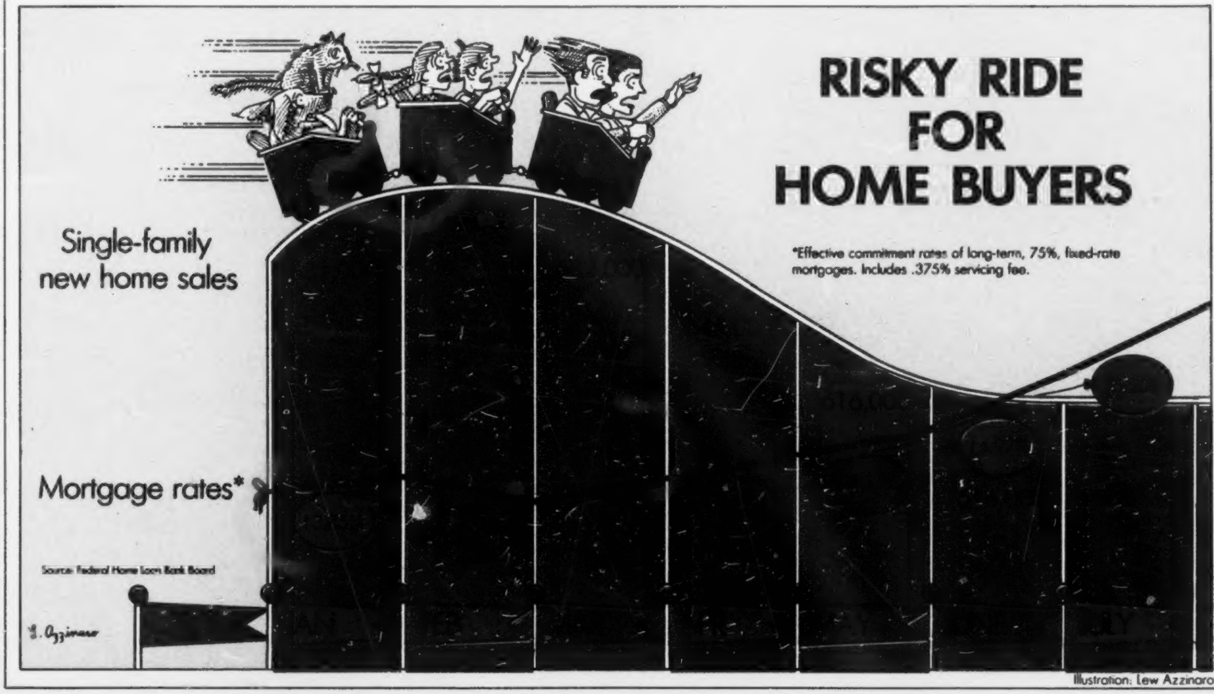
"Money is still incredibly available," he said.

Creative financing techniques such as buy-downs and ARMs, which came of age during the last recession, also will help cushion this one, according to Ken Rosen, chairman of the Center for Real Estate and Urban Economics at the University of California, Berkeley.

The rebirth of mortgage revenue bonds, authorized by the deficit reduction legislation passed this summer by Congress, will mitigate the housing downturn as well. The program, which provides tax-exempt, below-market rate money to first-time home buyers, will spark "a little surge," Santow predicted. Sumichrast estimated that the bonds will finance up to 100,000 units this year.

Howard notes yet another reason why this recession will be milder than the last one. "Single-family builders are keeping a close eye on inventory, so single-family construction won't drop off as precipitously as last time."

Although total starts stayed remarkably high during the first half of the year—they still reached 1.9 million in June—single-family starts declined



RISKY RIDE FOR HOME BUYERS

*Effective commitment rates of long-term, 75%, fixed-rate mortgages. Includes .375% servicing fee.

Source: Federal Home Loan Bank Board

Illustration: Lew Azzinaro

in both May and June. New home sales started down a month earlier. Meanwhile, however, multifamily construction showed surprising strength.

"There is pent-up demand in the single-family market, but financing is a problem," Howard said. "The situation is reversed for multifamily." Although apartment rental vacancies are up, investors are still pouring money in, especially in the South where overbuilding is a problem in a number of markets.

Nevertheless, Howard predicted that the investor-driven multifamily market will weaken next year.

One thing that won't ease the coming housing downturn is the recently enacted $63 billion deficit reduction package.

"It was a minimal, disappointing package," said Santow who predicted that it won't stop the 1985 deficit from being at least as big as this year's.

Sumichrast agreed, adding that he expects the entire tax system to be restructured next year—after the election. In fact Robert Dole, chairman of the Senate Finance Committee, has indicated as much. He says Congress has gone about as far as it can with nickel and dime "revenue enhancements."

Although all the economists quoted here agree that housing is heading for a dive, each believes it will be short and relatively mild. According to Rosen, the industry will be back in recovery by the second half of next year.

But there is less agreement about whether the housing recession will spread to the rest of the economy. In Rosen's view, it won't. "Last time, it was an economy-wide recession. This time unemployment won't go up much, and the general economy will experience only a minor downturn."

That scenario would help keep the housing recession relatively moderate. However, not everybody agrees with Rosen's forecast.

"The high rates that hurt housing will affect the rest of the economy later, resulting in a general downturn," Howard prophesized. But "this recession won't be as long or as deep as last time," he said.

Carol Anderson, News Editor

MARKETING

SALES SLUMP SPURS CREATIVE MARKETING

Medema Homes, Denver, tried offering free airline tickets to buyers and now is giving them zero-coupon municipal bonds.

The Hayden Company, St. Louis, is giving away a $10,000 down payment on a new home.

U.S. Home Corporation is back in the auction business.

In Chicago, the Hoffman Group reduced prices and started paying closing costs.

All these methods are aimed at the same thing: spurring sales which slumped this summer in the face of rising mortgage rates.

Nationally, single-family sales fell 14 percent between February and May. And mortgage rates have climbed nearly two percentage points since March, causing second quarter sales in some markets to dive 30 to 40 percent compared with the same period last year.

All this galvanized many builders to revive recession selling tactics in an urgent effort to move as many units as possible before rates rise even further.

U.S. Home decided to go the auction route. About 200 homes in seven markets (Houston, Chicago, San Antonio, Denver, Tulsa, New Orleans and Annapolis, Md.) were scheduled for auction between June and mid-August.

"We had some excess inventory, and the auction was the quickest way to get rid of it and clear the way for more current product lines," said Bill Weidman, a spokesperson for U.S. Home.

The company's excess inventory was a result of fewer than expected sales in the second quarter of the year. U.S. Home's sales during the period were 32 percent lower than the 3,600 sales recorded in the second quarter of 1983.

All the homes offered at auction by late July had been sold, Weidman said, because there was no minimum bid. Auction prices generally range from 50 percent to 100 percent of the original selling price, depending on the market and model, he added.

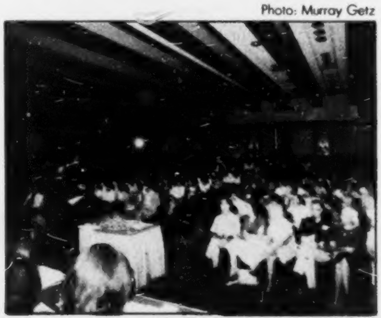
"We've had auctions where we broke even and others where we lost money," explained Kelly Fawcett, director of investor relations for U.S. Home.

But U.S. Home obviously believes that auctions are worth the gamble, considering the risks of carrying inventory at current interest rates. "The auctions have gotten our inventory back under control," Weidman said.

U.S. Home started using auctions during the last recession in 1981, but Medema Homes has instituted a new sales incentive that wasn't around three years ago.

The company gives each home buyer a zero-coupon municipal bond in the amount of the purchase price of the home (see August BUILDER, page 42). Homeowners can cash in the 25 to 35-year bonds any time, but they receive the full face value only if the bonds are kept to maturity. And interest is compounded rather than paid out periodically.

Photo: Murray Getz



U.S. Home auctioned off 108 new homes in Houston this summer. The company also auctioned homes in six other markets to reduce excess inventory.

The Denver-based company started offering the bonds in mid-July and, after only one week, subdivision traffic had picked up noticeably, according to James Wise, vice president of sales and marketing.

He wouldn't say how much the bonds cost the company, but other builders using similar programs report they cost nearly 4 percent of the bond's face value plus the broker's

CONTINUED FROM PAGE 52

for preferential tax treatment. NAHB disputes that position, arguing that multiple maturity pass-throughs reduce prepayment risk equally for all investors rather than shifting the risk from one investor group to another.

The IRS held hearings on the proposals in late July. It is not known when final regulations will be issued.

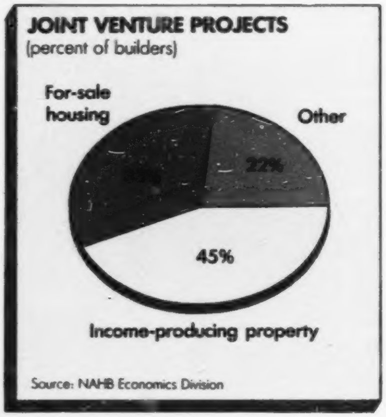
MANAGEMENT

ARE JOINT VENTURES A NECESSARY EVIL?

Are joint ventures with financial institutions a necessary evil for home builders? According to a recent survey by NAHB's economics division, nearly one out of every five builders thinks so. This percentage runs true regardless of how big (100 or more units a year) or small (less than 10 units a year) the builder.

Necessary evil was the middle-of-the-road position. One out of three builders surveyed saw joint ventures as an excellent way for builders to reduce capital requirements and risk, or a good way for smaller, independent builders to compete with larger public companies.

On the other hand, 40 percent took a dimmer view, agreeing that joint ventures would lead either to the end of the small, independent builder or to direct building activities by financial institutions.



JOINT VENTURE PROJECTS
(percent of builders)

Source: NAHB Economics Division

Of the 170 home builders queried, only 14 percent or one in seven had participated in a joint venture last year; bigger builders were more active in joint ventures than smaller builders. No builder building fewer than 10 houses a year reported participating in a joint venture, while 10 percent of those building 10 to 24 units a year, 24 percent building 25 to 99 units a year and 24 percent building 100 or more units a year took financial institutions as equity partners.

Other survey findings were:

- About one-third of the builders who participated in joint ventures last year did for-sale housing projects and 45 percent joint ventured income-producing projects;
- About one-third of the participants in joint ventures indicated they could have obtained straight debt financing at reasonable rates for their projects; 20 percent said they could not. The rest—47 percent—indicated they were not sure if they could have obtained straight debt financing at feasible rates without the equity participation of financial institutions.

MANAGEMENT

PUBLICLY HELD BUILDERS PUSH TO GO PRIVATE

Sailing against the 1983 tide when about half a dozen housing companies went public (BUILDER, November 1983), at least two publicly held home building companies have explored a return to the private sector. Executives of Ryan Homes are working out plans to buy stock back from shareholders and the founders of Shapell Industries recently repurchased all outstanding stock.

In the case of Pittsburgh-based Ryan, a BUILDER 100 company ranked as the fifth most active building company, senior management including chairman Malcolm M. Prine would become the owners. "We are offering ownership opportunity to all in senior management positions, but we don't know how many will participate," reported Ryan spokesman Charles W. Prine, Jr., a senior vice president (and no relation to the chairman).

Ryan is going private, Prine continued, "because senior management thinks the company is a good investment." Wall Street analyst Alan Wapnick of Dean Witter Reynolds, sees other reasons as well. "With Ryan's current very positive cash flow, the need to remain public to afford access to public capital does not appear necessary. The funding of the mortgage finance operations can be readily accomplished as a private company."

Wapnick added that going private may also be an attempt to prevent an unfriendly takeover, a suggestion that Ryan's Charles Prine denied.

Ryan's stock, currently selling at around $19 a share, is underpriced, according to Wapnick. For the past year the stock, which is traded on the New York Stock Exchange, fluctuated between a high of $45 and a low of $17.

Under the proposed buy-out, Ryan management would offer shareholders $24 a share for the approximately 7.3 million shares outstanding. The total buy-out is valued at $176 million.

From an investor's point of view, Wapnick considered the $24-a-share offer "cheap from all but the most short-term viewpoints." David Wilson, an analyst with Wall Street's Shearson Lehman/American Express, observed that the price is well below the break-up value of the company which he estimates to be $26.50 a share.

"The leveraged buy-out at $24 a share is attractive for management," Wilson reported. "The shareholder, on the other hand, should get at least $26.50 and maybe a little more. However, he cannot expect to receive top dollar since he should be willing to leave something on the table for management."

Wilson concluded that management's incentive is to obtain a well-run company capable of generating significant cash flow in the years ahead and that it should not have problems raising the $176 million necessary for the leveraged buy-out.

A leveraged buy-out occurs when a company is acquired in a transaction financed largely by borrowing. Ulti-

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ARMs without these safeguards must be underwritten at the more conservative monthly housing expense-to-income ratio of 25 percent and total monthly debt-to-income ratio of 33 percent compared with the more liberal ratios of 28 percent and 36 percent respectively.

In addition, certain ARMs are restricted to a maximum 90 percent loan-to-value ratio: graduated payment ARMs; mortgages with rate discounts or buy-downs greater than 2 percent that include payment caps; and ARMs with different rate and payment adjustment periods over three years.

Carol Anderson

MULTIFAMILY

DOORS ARE CLOSING FOR LOW-INCOME HOUSEHOLDS

Last year was a boom period for housing, but not everybody got to go along for the ride.

The housing situation for low-income households actually worsened in 1983 as federal cutbacks in assisted housing—primarily the gutting of the Section 8 new construction program—took full effect.

That's the conclusion of a survey of 66 cities conducted recently by the U.S. Conference of Mayors. The survey, titled *Housing Needs and Conditions in American Cities,* found that the demand for assisted housing increased while the supply diminished.

Applicants had to wait for housing assistance an average of 20 months, but waiting lists for families seeking housing certificates under the Section 8 existing program often were much longer, in one instance nearly 30 years. Worse yet, almost two-thirds of the cities had closed their waiting lists and stopped accepting new applications.

Even when families received certificates, they weren't home free. More than half the cities reported that at least a quarter of the certificates they issued had to be canceled because recipients couldn't find units that met program requirements. In fact, a quarter of the cities said their cancellation rate was 50 percent or higher.

AVERAGE WAIT FOR ASSISTED HOUSING
(in months)

Program	Household type			
	Family	Large family	Elderly	Handicapped
Public housing	18	23	16	8
Section 8 certificate	25	24	16	10

Source: U.S. Conference of Mayors

That is evidence of a supply problem and, in fact, more than half the cities reported that the housing supply for low and moderate-income households had decreased or remained the same since 1979. They most often cited "decreased construction" as the cause of the decline.

The report laid much of the blame for a shrinking supply with the federal government, charging that budget cuts since 1981 have reduced federal low-income housing resources by nearly 60 percent—"the largest percentage reduction of any discretionary program category in the budget."

Moreover, an overwhelming 89 percent of the cities believe that the private sector cannot meet rental housing needs without subsidized production programs.

MULTIFAMILY

NEW MULTIFAMILY BOND PROGRAM HAS AAA RATING

When the Federal Savings and Loan Insurance Corporation (FSLIC) multifamily housing bond program was eliminated last year, a void was created in the market. Now FISER, a Santa Barbara financial and investment service company, has come up with a unique twist to the insured municipal bond program to fill that void.

The FSLIC program insured city (or other municipality) funds raised through municipal bonds, deposited in financial institutions and lent to home builders. Because of the insurance, the bonds qualified for Triple-A Standard and Poors ratings. The AAA rating, the highest Standard and Poors offers, meant the city could offer the bonds at preferred interest rates. Typically, in today's market, if a city can boost its bond rating from A to AAA, it can save about 75 basis points on the issue's interest rate. This saving then can be passed on to builders who borrow the funds to build affordable multifamily housing.

When FSLIC was legislated out of the municipal bond picture, insurance companies stepped in and offered to insure funds, thus preserving the AAA rating. But the insurance companies insisted that the lending institutions put up collateral equal to or in excess of the funds in question. For example, on a $30 million issue, the insurance company would insure a lending institution's $30 million commitment to a developer but would demand that the lender pledge another $30 to $35 million in collateral.

"That means the lending institution has a $30 million transaction obligation plus $35 million in collateral tied up. The $65 million becomes onerous," commented David L. Parker, president of FISER. Understandably, financial institutions were less than excited about involving themselves in such programs. FISER looked for a way to turn them on.

FISER's solution was to work with partner Financial Market Insurance Service (FMIS), an agent for Industrial Indemnity, the 14th largest insurance organization in the United States, to insure the funds without requiring collateral from lending institutions. "This avoidance of over-collateralization makes the plan unique among the insured municipal bond programs," Parker claimed. FISER and FMIS worked out the arrangement by prequalifying lending institutions, developers and investment bankers before each issue. As with FSLIC, 20 percent of units constructed under FISER's program must be set aside for affordable housing.

The key factor for bond holders is that if the financial institution defaults on the bonds, assurance of repayment

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BUILDER

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Photo: Copyright Roddey E. Mims/Uniphoto

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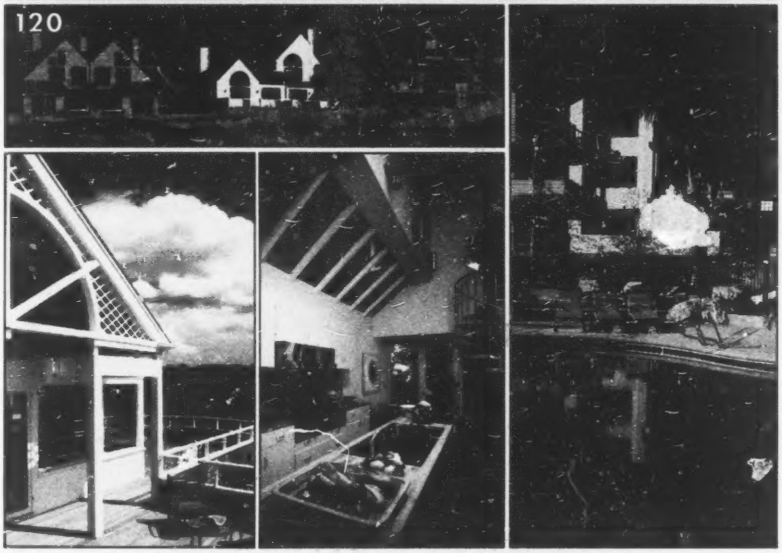


35—THE ELECTION: HOW WILL HOUSING FARE?

A special eight-page report on next month's presidential election, with housing policy statements from both parties, the opposing views of a builder who supports Reagan and another who supports Mondale, an analysis of key Congressional races and major, upcoming housing-related legislation and the results of an exclusive political survey of 500 builders.

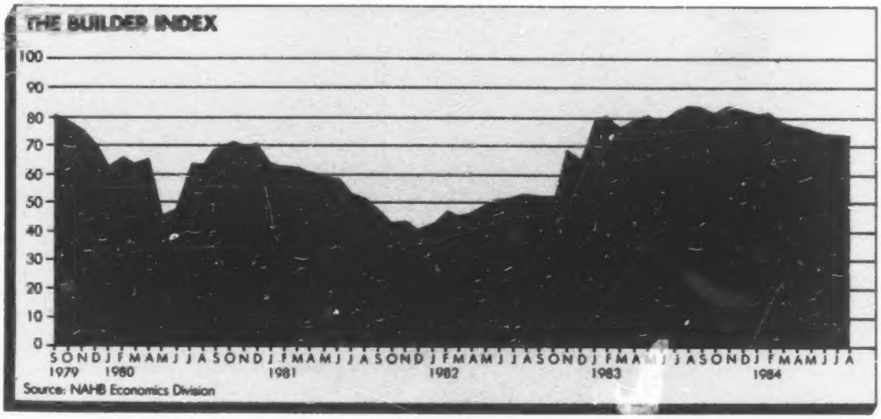
120—1984 BUILDER'S CHOICE DESIGN AND PLANNING AWARDS

The competition was keen in the fourth annual Builder's Choice awards program. There were a record number of entries, 754, making the judges' job especially difficult. After two days of reviewing the entries, they recognized 57 for excellence in design and planning and selected one, Windward Harbor in New Hampshire, as project of the year. All the award winners are featured in this issue; together they set a standard for design excellence for the housing industry.

(Cover: Windward Harbor, Centre Harbor, N.H. Photo: Copyright 1984 Cymie Payne)

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

After four sharp declines the BUILDER Index leveled off at 74.08 in August. Still it was at the lowest level in almost two years.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Reaganomics In Review

Michael Sumichrast
NAHB chief economist, Washington, D.C.

With the presidential election just a month away, it seems appropriate to review the Reagan administration's record on the economy. That can be done in many ways, but let's use gross national product (GNP) data to compare the economy during the fourth quarter 1980, when Reagan was elected, with the second quarter of 1984.

During this period the GNP increased 34 percent. The component of GNP that increased the most was business inventories, which increased from minus $17.4 billion to plus $48.5 billion, a 378 percent gain.

Another big winner was gross private domestic investment, which includes housing. It increased 58 percent or from $397.7 billion to $626.4 billion. Not surprisingly government defense also increased substantially: by 56 percent to $221.2 billion from $141.6 billion.

On the other hand, the net export of goods and services declined dramatically going from a surplus of $23.3 billion to a whopping minus of $54.6 billion. Actual exports increased 6 percent, but imports jumped 31 percent, offsetting increases in exports by nearly $100 billion. There were no other losers among the remaining major GNP components.

Growth in personal income just about kept pace with the growth of GNP, increasing 32 percent, but disposable personal income increased at a somewhat higher rate of 35 percent. The really good news about income growth is that personal tax and non-tax payments increased substantially less, only 20 percent. As a result personal savings shot up by 49 percent, and the savings rate increased from 5.1 percent to 6 percent.

Both labor and corporations benefitted from the economic improvement between 1980 and 1984. Domestic corporate profits increased by 30 percent, and the number of employed increased by 6 million. Almost all of those new jobs were added in the past year, when 5.5 million workers were added to payrolls.

Still, unemployment is higher today than in 1980. The unemployment rate is 7.5 percent compared with 7.2 percent, and the number of unemployed is 8.5 million versus 7.7 million. Unemployment in construction is higher—14.7 percent now, compared with 13.6 percent in 1980.

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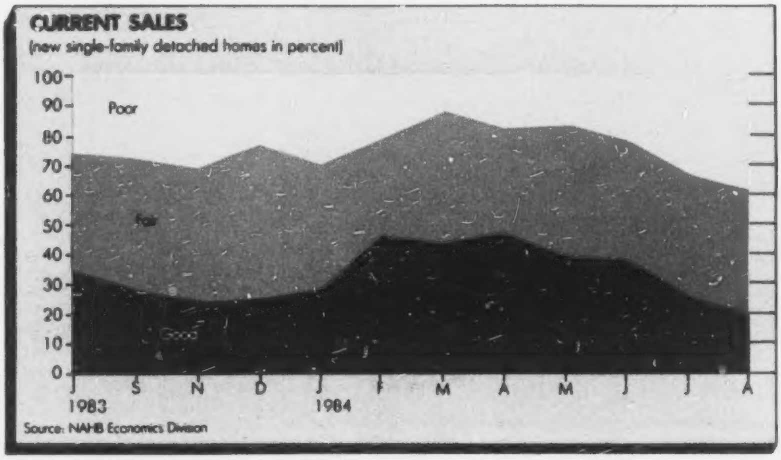
GNP COMPONENTS
(4th quarter 1980 to 2nd quarter 1984)

Component	Percent change
Total GNP	33.6%
Change in business inventories	378.7
Gross private domestic investment	57.5
National defense	56.2
Personal savings	49.2
Durable goods	43.4
Producers' durable equipment	42.1
Federal government purchases of goods and services	41.1
Fixed investment—nonresidential	39.7
Fixed investment—residential	37.8
Personal consumption expenditures	33.0
Personal income	32.2
Final sales	31.0
Imports	30.6
State and local government purchases of goods and services	29.1
Personal tax and non-tax payments	19.8
Non-defense government purchases of goods and services	10.9
Exports	6.0
Net exports of goods and services	−334.3

Sources: Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, National Income and Product Accounts; compiled by NAHB Economics Division.

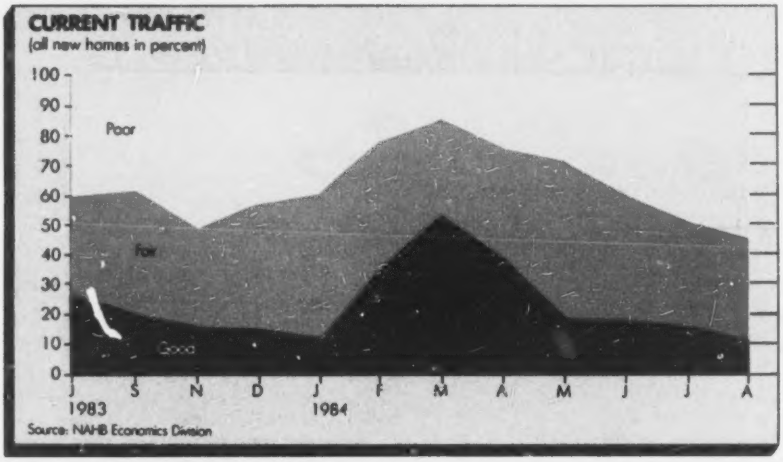
OUTLOOK/BUILDER POLL



CURRENT SALES

(new single-family detached homes in percent)

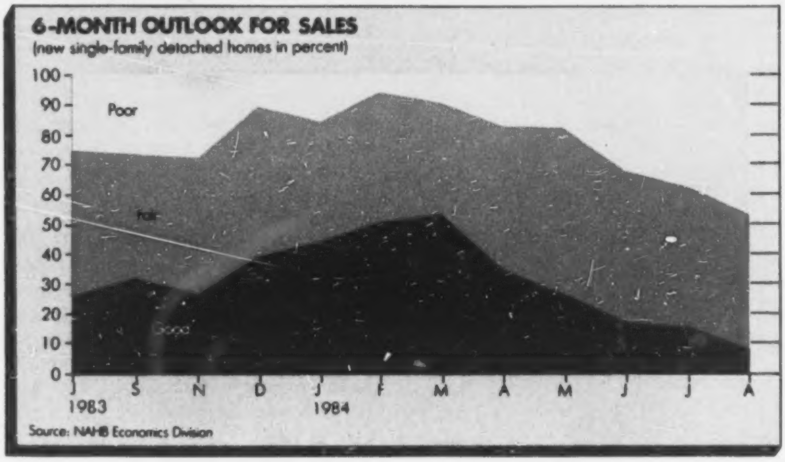
Source: NAHB Economics Division



CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

SALES SLOW DOWN

Until late summer mortgage rate increases had adversely affected the long-term outlook of builders but new home sales had more or less held their own. But, according to the August BUILDER Poll, that has changed. New home sales had dropped sharply by August, and the builders' outlook had deteriorated even further.

The comments of builders polled reflect the change. A Cincinnati builder said, "The market has quieted down in the last 60 days." "Traffic has come to a standstill," said a builder from Illinois, while a builder in Baton Rouge, La., said, "It's the same old story. When interest rates go up, sales go down."

The change in the current sales picture was dramatic. In August more than one-third of the builders polled reported sales were poor, and only 20 percent said sales were good (top chart). In April almost half reported good sales, and fewer than 20 percent reported poor sales.

The drop-off in traffic has been even more severe. Only 10 percent rated traffic good in August, while 55 percent reported traffic as poor (middle chart).

What's even worse, very few builders expect things to improve at all during the next six months. In fact, half think new home sales will be poor over that period (bottom chart).

How bad could it get? Very bad, thinks a Texas builder. He said, "Interest rates put bad builders out of business in 1980 to 1982. They'll put good builders out of business in 1984 and 1985."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

BATTLE PLANS

Most builders have concrete battle plans for dealing with the expected tough times ahead, according to a nationwide survey by the Greenman Group, a residential marketing firm based in Hollywood, Fla. Builders' strategies: product diversification or design upgrades (30%); more sophisticated marketing efforts (24%); new financing or business management approaches (37%). The other 9% were concerned but had no plans of action.

RESALES DOWN AGAIN

Existing single-family home sales fell 6% in July to an annual rate of 2.78 million, reported the National Association of Realtors. It was the third consecutive monthly decline and the lowest level since November 1983.

ROBUST REMODELING

Remodelers expect brisk business during the rest of the year and into 1985, despite relatively high interest rates, according to a recent survey by NAHB's National Council of Remodelers. More than 72% of the remodelers rated overall remodeling activity as good, and another 22% said it was fair. Although they expected the market to remain about the same through the end of the year, 28% reported a scarcity of affordable financing, and 23% said skilled labor was in short supply.

HEFTY HOUSEHOLD INCREASE

The number of U.S. households grew a hefty 1.5 million between March 1983 and March 1984 compared with only a 391,000 gain the year before, the Census Bureau reported recently. The recession year 1982 was the first time in 20 years that the number of households did not increase significantly. Families accounted for 73% of the 85.4 million total households in 1984, but the average number of persons per household declined to a new low of 2.71.

BIG LOSERS

High interest rates are hurting the big guys too. Fannie Mae's second quarter earnings plunged 83% from the previous quarter to $2.4 million. The dive was primarily caused by a negative spread between the yield on the corporation's $80 billion mortgage portfolio and interest paid on borrowings. Savings institutions also are feeling the squeeze. The Federal Home Loan Bank Board reported that the proportion of FSLIC-insured S&Ls and savings banks that are operating in the red increased from 35% during the second half of last year to 38% for the first quarter of 1984. At the same time, the annualized rate of return on assets of all FSLIC-insured savings institutions dropped to 0.16% from 0.23%.

HOME FIX-UPS BOOM

Residential property owners spent $7.5 billion on construction improvements and major equipment replacements during the first quarter of this year, according to statistics recently released by the Census Bureau. That's an increase of nearly 40% over the same period last year and the highest first quarter total so far this decade. Owners of one-to-four family units accounted for nearly $5 billion, or about 65%, of those expenditures.

CONTINUED FROM PAGE 11

The news about inflation somewhat offsets the bad news about unemployment. The Consumer Price Index (CPI) now is increasing at less than 4 percent compared with 13.4 percent in the last three months of 1980. Increases in the Producer Price Index also are more moderate: less than 1 percent compared with nearly 12 percent in 1980. Interestingly the Residential Price Index increased only 14 percent during the period compared with a total CPI increase of 23 percent.

Housing starts, at a seasonally adjusted annual rate, are up 24 percent to 1.898 million units in the second quarter of 1984 compared with the fourth quarter of 1980 when the rate averaged 1.535 million starts. Housing sales during the same period increased 48 percent, and the value of all residential construction was up nearly 80 percent.

Of course all of this camouflages the fact that just two years ago this country went through the sharpest recession in 40 years. Interest rates rose rapidly, housing starts dropped to their lowest level since 1946 and the unemployment rate peaked at 10.7 percent at the end of 1982, with construction unemployment soaring to 22.8 percent.

The recession exacted a heavy toll, but the economy is in much better shape now. Since the recession ended the economy has grown at a good speed.

To a great degree, however, the recovery has depended on federal government expenditures. While government receipts have grown 30 percent from 1980, expenditures have shot up by 62 percent to $932 billion, the deficit has increased by a whopping 162 percent to $193 billion and the interest payment on the national debt has increased a staggering 109 percent.

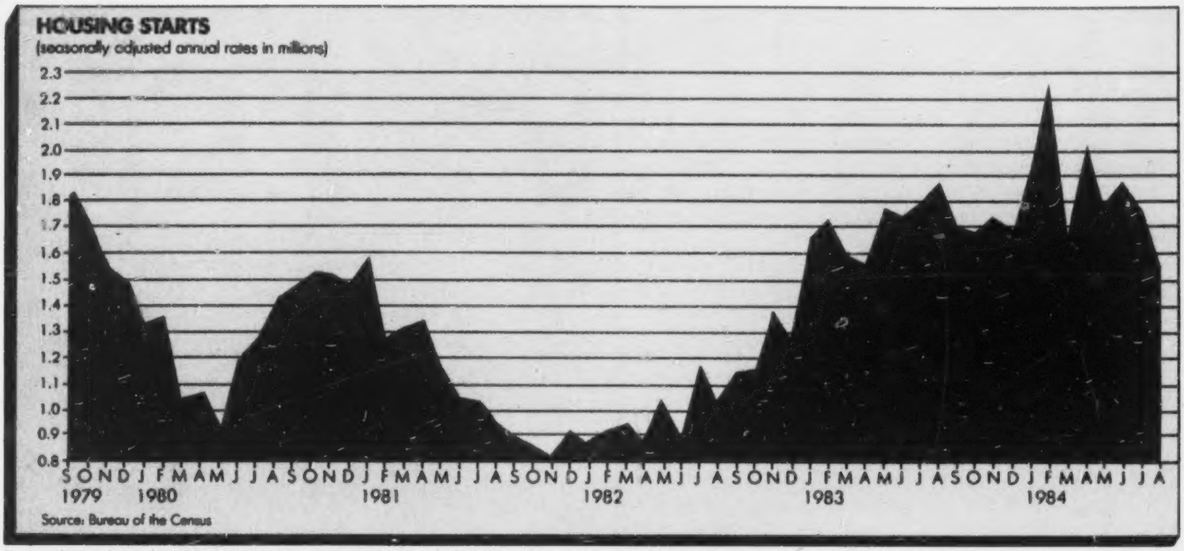
There is a lesson in all of this: Declining interest rates do have an enormous impact on our economy. Coupled with tax cuts, incentives to invest and unprecedented expansionary fiscal policies, they can put people to work and trigger economic growth.

But we can't have our cake and eat it too. Record government expenditures will strain the credit markets and force interest rates higher.

So in reviewing the economic progress of the last four years it's important to look ahead as well. And given the present condition of the financial markets, it would be a miracle if there isn't another round of interest rate increases followed by another recession next year.

Simply put, in spite of the increases in GNP, there is not enough money in the economy to fund the government sector and allow the private sector to continue to grow.

OUTLOOK/STATISTICS

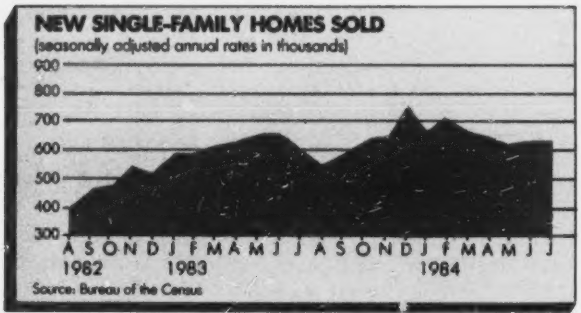


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

Starts plunged nearly 13% in August to an annual rate of of 1.54 million—the lowest level since December 1982. The culprits: high mortgage rates and a 19.5% drop in multifamily starts for buildings with five or more units. Single-family starts declined 9.7%.

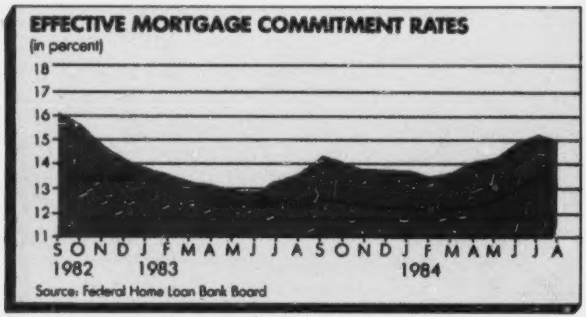


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

Sales held in July at an annual rate of 630,000, unchanged from the revised June pace, which saw the first rise in four months. The July sales rate was 4% higher than a year earlier.

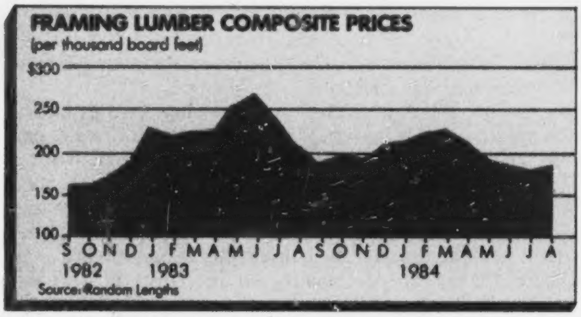


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

Commitment rates on long-term, fixed-rate mortgages fell 22 basis points in August to 15.01%—the first decline in five months. Uncapped adjustable rates declined only one basis point to 13.16%.

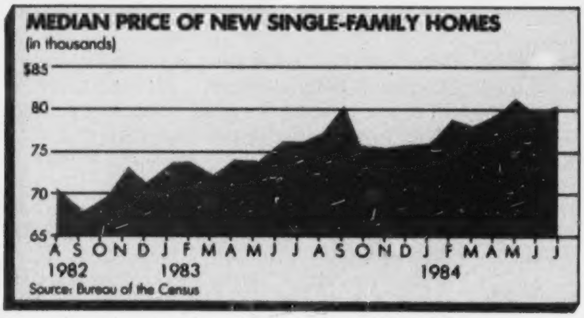


FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Halting a four-month decline, lumber prices increased in August by 4% to $190 per thousand board feet. But the August price was still 6% lower than a year earlier.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median sales price of new homes rose a slight $400, or 0.5%, in July to $80,300 from the upwardly revised June price of $79,900. The July price was nearly 7% higher than a year earlier.

BUILDER VIEWPOINT
National Survey

If only builders could vote in the presidential election next month, Ronald Reagan would win by a landslide margin. He'd get at least 63 percent of the popular vote and sweep to victory over Walter Mondale by almost a six to one margin.

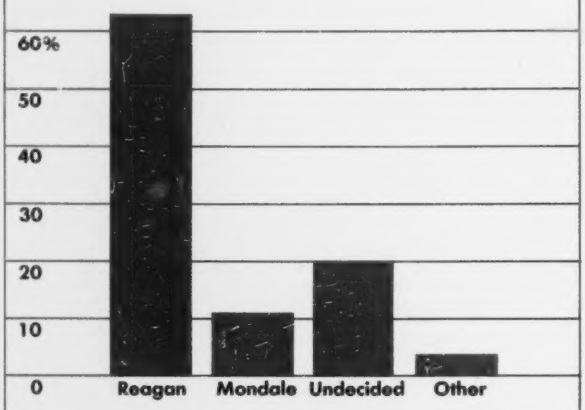
That builders overwhelmingly support the reelection of the president was determined by a telephone survey of 508 builders conducted for BUILDER by Inter-Media Marketing, a research and marketing firm in West Chester, Pa.

The survey also showed that most builders—59 percent—believe the Republican Party is better for housing. (Only 24 percent feel housing stands to benefit more under the Democrats.)

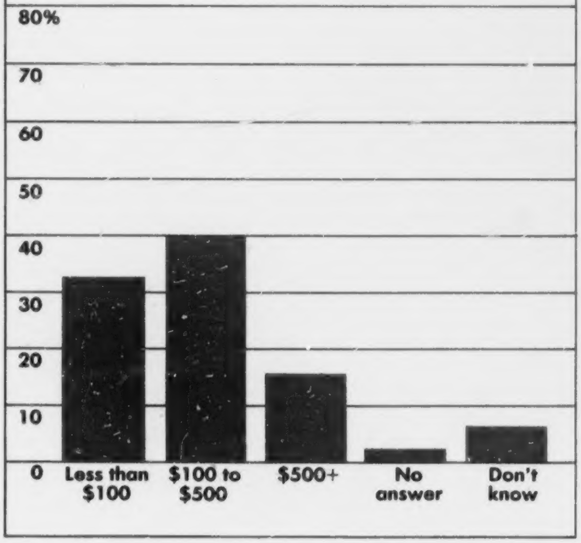
And while slightly more than half the builders surveyed feel the housing lobby is moderately to very effective on the national level, a majority nonetheless thinks housing is losing ground as a national political priority. And they think that even though more than half count their Congressmen as "friends of housing."

Of the major political issues affecting housing, the one, according to the survey, that most concerns builders is the possibility of Congress capping or eliminating the mortgage interest deduction. Close to 90 percent think that would have a very negative impact on housing. Another concern is with the virtual elimination of federally assisted low-income housing production programs; almost half think that has had a negative impact.

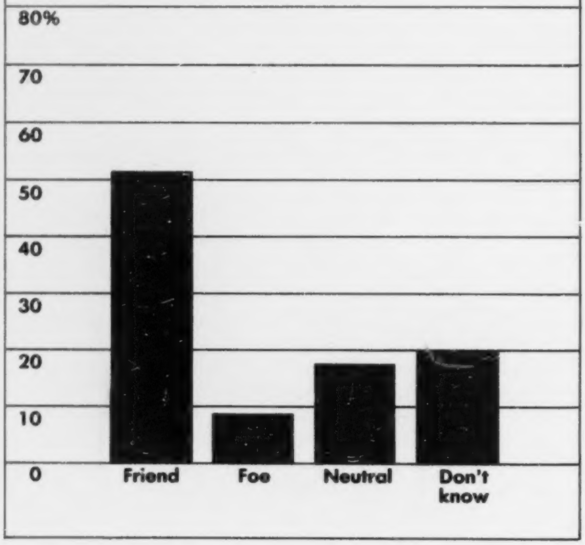
QUESTION: Who will you vote for in the upcoming presidential election?



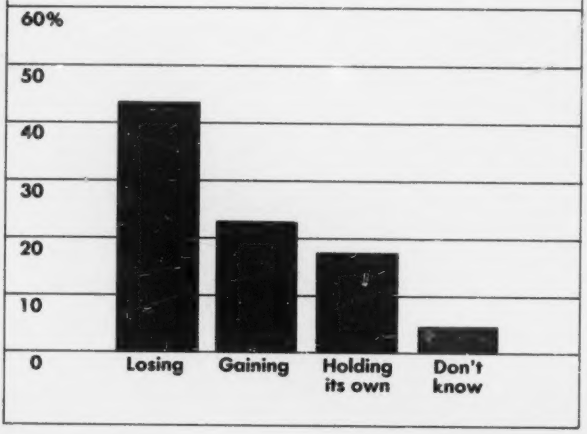
QUESTION: How much do you contribute to political campaigns?



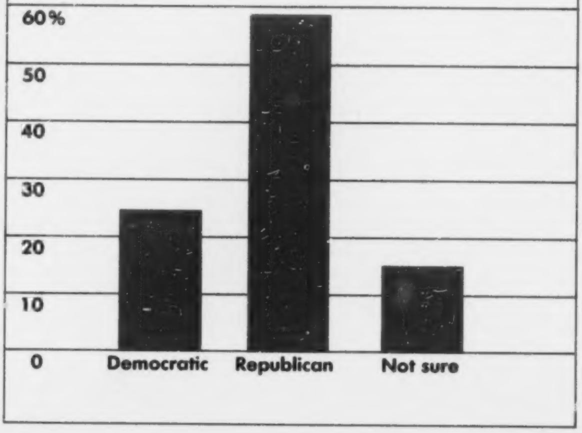
QUESTION: Do you feel that your representative in Congress is a friend or foe of the housing industry?



QUESTION: Do you feel that housing is losing or gaining as a political priority?



QUESTION: Which political party do you feel is better for housing?



QUESTION:		Very negative	Moderately negative	None	Moderately positive	Very positive	Don't know	Unfamiliar with issue
Part 1:	What would be the effect if Congress were to cap or eliminate the mortgage interest deduction?	81%	4%	1%	2%	3%	5%	0%
Part 2:	What impact will the virtual elimination of federally assisted low-income housing production programs have?	18%	23%	36%	6%	6%	8%	0%
Part 3:	How would you assess the impact of the recently passed tax legislation?	5%	10%	6%	23%	25%	19%	8%

QUESTION:		Very effective	Moderately effective	Not at all effective	Don't know
Part 1:	How effective do you feel the housing lobby is at the national level?	10%	45%	24%	20%
Part 2:	How effective do you feel the housing lobby is at the local level?	24%	27%	38%	9%

FINANCE

BANKS SUPPLY MOST CONSTRUCTION LOANS

Commercial banks finance the lion's share of construction loans, and life insurance companies bankroll more permanent loans than any other type of lender.

Those were two not unexpected findings of a recently released survey by the Urban Land Institute (ULI) of financing commitments that developers received during the last quarter of 1983 and the first quarter of 1984. It was ULI's first semiannual survey of real estate development finance.

The nationwide survey covered 287 projects with a total value of $4.5 billion. Various kinds of development were studied, but office buildings were found to be the most prevalent (36 percent), followed by for-sale housing (14 percent), industrial projects and shopping centers (13 percent each) and apartments (11 percent).

According to the survey, banks financed 57 percent of the total amount of construction loans, followed by S&Ls with 21 percent. ULI also discovered that a few syndicators are now funding construction loans although they still prefer existing, fully leased property.

Another surprise finding was that about 15 percent of the projects received construction financing before permanent financing was lined up, indicating a more liberal attitude on the part of some construction lenders.

However, there also were indications that the distinction between construction lending and permanent financing often was blurred. Some 47 percent of construction loans contained at least one renewal option, and on those loans the average term exceeded 40 months compared with 28 months for the initial loan term. In other words, some construction lenders will give developers an extra year to obtain permanent financing.

As for permanent loans, 40 percent of those lenders also supplied the construction loan, but the average "permanent" loan term was only 10 years.

REAL ESTATE FINANCING SOURCES

Construction loans		Permanent loans	
Lender	Percent of total loan amount	Lender	Percent of total loan amount
Banks	57%	Life insurance companies	29%
S&Ls	21	Banks	27
Public[1]	4	S&Ls	18
Mortgage bankers	4	Public[1]	5
Savings banks	4	Mortgage bankers	5
Life insurance companies	6	Pension funds	7
Financial	1	Savings banks	4
Internal	2	Syndications	2
REITs	0.2	Financial	1
Syndications	0.5	Foreign	3
Foreign	0.2	REITs	0.4
Total	100		100

[1] Public financing—projects financed at least 35 percent by tax-exempt financing.

Source: Urban Land Institute

"It appears that the meaning of the term 'permanent financing' is changing," commented Cecil Sears, survey director and a senior research associate at ULI. "Today we are seeing short loan maturities that represent, in effect, only 'holding period' financing."

The survey also found that joint ventures are more prevalent in the South and West: 85 percent of all joint ventures and participating mortgages were found in projects located in the Southeast, Southwest and West even though those regions contained only 67 percent of the projects surveyed.

MARKETS

GENTRIFICATION IS BACK

After a two-year hiatus, gentrification—the takeover of inner-city neighborhoods by young, middle-class home buyers—is once again a major trend in many American cities, according to a special study by *U.S. Housing Markets*, a publication of Dallas-based mortgage banking company Lomas & Nettleton.

Noting that gentrification has three groups—"pioneers" who move in before a neighborhood is perceived as safe, "settlers" who move in as a neighborhood is on the verge of stabilization and "joiners" who move in as the neighborhood becomes fashionable—the report comments that in many cities the joiner phase now is very strong.

"The housing of historical interest on good blocks close to downtown—the brownstones, triple-deckers, Queen Annes, prairie houses, et al.—continues to trade up to blue-chip status," said Walter C. Klein, Jr., senior executive vice president at Lomas. As an example, Klein points to such Brooklyn neighborhoods as Park Slope and Boerum Hill where elegantly restored brownstones that sold for $25,000 in 1966 and $150,000 in 1979 now are selling for $200,000 to more than $400,000.

Phase two gentrification—the settlers—also is fairly strong, according to the report, but pioneering is notably weak.

"There is a shortage of neighborhood pioneers. Demographic and social changes have reduced the supply of the kinds of young people who became pioneers," Klein reported. Other factors keeping phase one weak are the disappearance of long gas lines and inflated suburban house prices.

In cities where gentrification is particularly strong—Boston, St. Louis,

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most families to buy a house, he feels the concept's time has come. He feels so strongly, in fact, that he rejoined Cenvill last year to structure and administer the overall planning, development and marketing of the concept, not only at Centura Parc but also at developments in other parts of the country.

"If a developer in, say, Cincinnati wants to build a large project for working families like ours," says Bergmann, who also is president of Cenvill Family Centers, "we'll go in and joint venture a child care development center."

Unlike other facilities, which usually are deeded over to residents through their homeowner associations, Cenvill will retain ownership of the child care centers at Centura Parc and anywhere else it builds them and operates them for profit. "We are, in effect, breaking new ground in the building and development industry to answer a pressing national need for child care and working parents," Bergmann says. "Once you let loose of a lifestyle amenity, it tends to go down the tubes."

Lew Sichelman

MARKETS

RENTAL MARKET IMPROVES IN SUNBELT CITIES

"Glut" was the word most commonly associated with the rental apartment market in the Sunbelt last year. With millions of syndication dollars chasing apartment house investments, the popular warm weather cities were overbuilt. Houston overdosed to a 20 percent vacancy rate while Dallas-Fort Worth and Atlanta struggled with 10 percent rates.

A year later, there's news of great improvement. *U.S. Housing Markets*, a survey publication of the Dallas-based mortgage banking company Lomas & Nettleton, finds that apartment vacancies in such cities as Atlanta, Austin, Dallas-Fort Worth, Denver, Orlando, Phoenix and Tampa-St. Petersburg, are leveling off or dropping. Vacancies are now in a comfortable 7 to 8 percent range in many cities, the survey found. Austin, for instance, is enjoying a whopping 5 percent vacancy rate decrease; Atlanta is reveling in a 2 percent drop.

TOP 20 CITIES BY MULTIFAMILY STARTS

City	1984 multifamily starts (projected)
Dallas	50,700
Phoenix	36,300
Atlanta	20,205
Tampa	17,720
Los Angeles- Long Beach	17,500
Houston	14,690
San Diego	11,700
New York City	11,510
West Palm Beach	10,408
Tucson	10,000
Chicago	9,763
Austin	9,750
Orlando	9,550
Nashville	9,003
Fort Lauderdale	8,111
Denver-Boulder	7,646
Seattle	6,930
Riverside-San Bernardino	6,400
Colorado Springs	6,267
Minneapolis	6,200

Source: NAHB Economics Division

Charles W. Wingo, Lomas & Nettleton executive vice president, cites four reasons for the good news:

- There is a massive undoubling trend, reversing a record doubling up a year earlier. According to recently released Census Bureau data, in the 12 months ending March 1984 there was an increase of 704,000 one-person households; in the year before, these households declined by 104,000. The turnaround began in the fourth quarter, which suggests a continuing trend.
- Employment growth is substantial in most of the Sunbelt markets, resulting in an influx of new residents. Phoenix, for instance, is flourishing with an 8 percent employment growth rate; Atlanta, Austin and Orlando have a 6 percent rate and Dallas-Fort Worth 4½ percent. "Normally," Wingo points out, "any growth above 2 to 3 percent triggers in-migration."
- The slowdown in house sales has diverted would-be buyers into the rental market. In Houston, where the for-sale market crashed and the rental market was the most depressed in the country, one large operator claims his average vacancy rate dropped from over 30 percent to just over 10 percent in a little over three months, the survey reported.
- Many of these markets haven't yet sustained the full impact of the extra-heavy apartment production. Occupancy surveys in Dallas-Fort Worth and Austin, for instance, don't count apartments which have been renting less than six months. That leaves out about 30,000 recently completed units in the Dallas area and some 4,000 in Austin, the report noted. Nearly 60,000 units will be added to the population covered in the Dallas-Fort Worth survey by this time next year, *U.S. Housing Markets* estimated.

While the Sunbelt apartment market revives, Wingo expects the next hot apartment market to be California, where rents are creeping up high enough to encourage new construction. "California could finish the year with as many multifamily starts as Texas," Wingo predicted. In particular, he liked the future for San Diego, which had 6,000 rental completions in the past 12 months and could have 20,000 in the next 12. Vacancy rates in San Diego hover at a very attractive 1 percent and, the survey noted, large new projects are rented up in three months.

FINANCE

MORTGAGE REVENUE BONDS BOOM

After lying dormant for six months, mortgage revenue bonds are booming once again—just in time to give the housing market a welcome dose of below-market mortgage rates.

In less than two months after President Reagan signed the 1984 tax bill reauthorizing the program in July, an estimated $5 billion worth of single-family, tax-exempt bonds were issued by state and local governments.

That compares with $10.7 billion issued during all of 1983 before authority to issue the bonds ran out at the end of the year.

The latest batch of bonds will finance roughly 100,000 home sales over the next 12 to 18 months, said Scott Brown, an analyst with NAHB's mortgage finance division. About half will be new homes.